Jiu Zun Digital Interactive Entertainment Group Holdings Limited
九尊數字互娛集團控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1961)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the "**Company**" or "**Jiu Zun Digital**") announces the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**we**" or "**us**" or "**our**") for the year ended 31 December 2019. The annual results have been reviewed by the Company's Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Year Ended 31 December		
	2019	2018	Change
	(RMB'000)	*(RMB'000)*	%
Revenue	**219,194**	142,979	+53.3
Gross profit	**79,572**	62,319	+27.7
Profit for the year	**41,208**	51,667*(1)*	-20.2
Add:			
Listing expenses	**9,050**	4,550	+98.9
Less:			
Reversal of impairment of trade receivables	**706**	17,273	-95.9
Adjusted profit for the year *(2)*	**49,552**	38,944	+27.2

Notes:

(1) Profit for the year includes the reversal of impairment losses on trade receivables of RMB17.3 million for the year ended 31 December 2018.

(2) "Adjusted profit" is not defined under the Hong Kong Financial Reporting Standards ("**HKFRS**"). It is defined by the Group as net profit excluding the listing expenses and reversal of impairment of trade receivables. The Directors believe that they are useful supplements to the consolidated statement of profit or loss. The adjusted profit reflects another perspective to the profitability of the Group's operations after excluding the listing expenses and reversal of impairment of trade receivables.

DIVIDENDS

The Directors recommend a final dividend of HK2.52 cents per share in cash for the year ended 31 December 2019.

REVIEW OF OPERATION

Jiu Zun Digital Interactive Entertainment Group Holdings Limited is a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games mainly played on android operating system; (ii) e-magazines; and (iii) other digital media content such as comics and music. We commenced our digital media content distribution business in 2011, and expanded our product offerings to mobile games in 2014 when we first began to develop and/or operate a wide range of casual mobile games. Apart from casual mobile games which we focused primarily before 2017, we also commenced development and operation of boutique mobile games since 2017 and launched our first multi-player mobile game in January 2019. Since 2018, we have also cooperated with corporate customers who make use of the in-game airtime provided by us for placing their media content for advertising purpose. In 2019, majority of our revenue was derived from the sale of virtual items in our casual and boutique mobile games.

The Group's revenue increased by approximately RMB76.2 million or 53.3% from approximately RMB143.0 million for the year ended 31 December 2018 to approximately RMB219.2 million for the year ended 31 December 2019. The increase of the Group's revenue is mainly due to the increase in revenue from our mobile game development and operation business by RMB98.9 million and partially offset by a decrease in revenue from digital media content distribution business of RMB24.1 million. The gross profit also increased by approximately RMB17.3 million or 27.7% from approximately RMB62.3 million for the year ended 31 December 2018 to approximately RMB79.6 million for the year ended 31 December 2019 due to an increase in revenue by RMB76.2 million, partially offset by an increase in cost of sales by RMB58.9 million as a result of an increase in our service fee charged by the distribution channel providers.

The gross profit margin also decreased from approximately 43.6% for the year ended 31 December 2018 to approximately 36.3% for the year ended 31 December 2019, which mainly due to the relatively lower gross profit margin from our multi-player mobile games development and operation, as our Group has just started penetrating into the business line of multi-player mobile games. The profit for the year decreased by approximately RMB10.5 million from approximately RMB51.7 million for the year ended 31 December 2018 to approximately RMB41.2 million for the year ended 31 December 2019. The decrease was primarily due to a substantial amount in reversal of impairment losses on trade receivables of RMB17.3 million incurred for the year ended 31 December 2018 and an increase in listing expenses of RMB4.5 million for the year ended 31 December 2019 as compared to last year. Excluding the listing expenses and reversal of impairment of trade receivables, the adjusted profit for the year increased by approximately RMB10.7 million or 27.2% from approximately RMB38.9 million for the year ended 31 December 2018 to approximately RMB49.6 million for the year ended 31 December 2019. The net profit margin decreased from approximately 36.1% for the year ended 31 December 2018 to approximately 18.8% for the year ended 31 December 2019.

OUTLOOK

The Group has always been committed to be a digital entertainment content provider. With the advancement in mobile technology and the country's general technological infrastructure, online mobile payments are increasingly popular and convenient. According to an independent third-party research report, attributable to the increasing penetration rate of mobile internet, the market size of online digital entertainment media has grown from RMB212.6 billion in 2013 to RMB615.6 billion in 2018, representing a CAGR of 23.7% in the PRC market. Supported by the emergence of new online digital entertainment segments such as live streaming, the market size in the PRC market is expected to continue rising at a CAGR of 24.2% from 2018 to 2022, reaching RMB1,446.4 billion in 2022.

In late December 2019, there has been an outbreak of COVID-19 in the Mainland China, Hong Kong and other regions (the "**COVID-19 Outbreak**"). As a result of this outbreak, all business entities were required by the relevant PRC authority to suspend their operation and services with resumption postponed to 10 February 2020 following the Chinese New Year holidays. Based on the current situation of the COVID-19 Outbreak, our mobile games can continue to be downloaded and played by players and digital media content can continue to be subscribed with all settlement services continued. We are also able to continue our cooperation with our suppliers and business partners through electronic media and telephone and remote access to our information technology system. Despite uncertainties brought about by the COVID-19 Outbreak in the PRC, taking into account the information technology nature of our business which is, in general, relatively less affected by the restrictions of people's mobility as a result of the COVID-19 Outbreak, and our current financial position, it is believed that the Group can remain financially viable at least for the coming years in case the operation is affected to an extreme circumstance that our revenue becomes minimal.

PROSPECTS

In 2020, the Company plans to focus on its boutique single-player mobile games development and operation and multi-player mobile games development and operation business. In March 2020, the Company launched its sixth multi-player mobile game Edge of Dream(逐夢邊緣), which is a licensed game with a fairy adventure genre. In addition, one more licensed multi-player mobile game Raging Dragon Slayer (烈火屠龍) and three self-developed single-player mobile games of difference genres are expected to be rolled out in the second quarter of 2020, including Fight against Love (消消愛大戰), Space Marbles (太空彈珠機) and Bubbles Fairground (泡泡樂園). With the shift of focus of the Group to multi-player mobile game development and operation business, larger scale and proportion of the Group's revenue are expected to be derived from multi-player mobile game development and operation in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Mobile Game

The mobile game consists of development and operation of mobile games and information services where the Group cooperated with corporate customers to integrate media content in some of the mobile games the Group operate.

The following table sets forth certain operating statistics relating to the mobile game of the Group in the periods indicated:

	Year ended 31 December		
	2019	2018	Change
			%
Game			
Number of playing players (in million)	**11.9**	14.9	-20.1
Average MPUs (in million)	**1.0**	1.2	-16.7
Average ARPPU (RMB)	**22.89**	15.41	+48.5

– MPUs. The average monthly paying users ("**MPUs**") for the game business decreased to approximately 1.0 million for the year ended 31 December 2019 from approximately 1.2 million for the year ended 31 December 2018. This decrease was primarily due to the shift of focus of the Group to boutique mobile games which require more time to develop.

– ARPPU. Monthly average revenue per paying user ("**ARPPU**") level of game business increased to approximately RMB22.89 for the year ended 31 December 2019 as compared to RMB15.41 for the year ended 31 December 2018. This increase was primarily attributable to the launch and operation of the five multi-player mobile games for the year ended 31 December 2019 which offered virtual items at a relatively high unit purchase price.

The following table sets forth the Group's consolidated statement of profit or loss for the year ended 31 December 2019 as compared to the year ended 31 December 2018:

	Year ended 31 December		
	2019	2018	Change
	RMB'000	*RMB'000*	*%*
Revenue	**219,194**	142,979	+53.3
Cost of sales	**(139,622)**	(80,660)	+73.1
Gross profit	**79,572**	62,319	+27.7
Other income and gains	**2,409**	2,050	+17.5
Selling and distribution expenses	**(861)**	(1,686)	-48.9
Administrative expenses	**(8,067)**	(9,864)	-18.2
Research and development expenses	**(7,934)**	(6,270)	+26.5
Reversal of impairment of trade receivables	**706**	17,273	-95.9
Other expenses	**(9,711)**	(4,550)	+113.4
Finance cost	**(1,039)**	(569)	+82.6
Profit before tax	**55,075**	58,703	-6.2
Income tax expense	**(13,867)**	(7,036)	+97.1
Profit for the year	**41,208**	51,667	-20.2

Revenue

Revenue increased by approximately RMB76.2 million or 53.3% to RMB219.2 million for the year ended 31 December 2019 from RMB143.0 million for the year ended 31 December 2018. The following table sets forth the revenue of the Group by business segment for the years ended 31 December 2018 and 2019:

	Year ended 31 December			
	2019		2018	
	RMB'000	***% to total revenue***	*RMB'000*	*% to total revenue*
Revenue from contracts with customers				
Mobile games				
– Development and operation	**189,499**	**86.5**	90,611	63.4
– Information services	**2,310**	**1.0**	918	0.6
Digital media content distribution	**27,385**	**12.5**	51,450	36.0
Total Revenue from contracts with customers	**219,194**	**100.0**	142,979	100.0

– Revenue generated from the Group's mobile games increased by approximately RMB100.3 million or 109.6% to RMB191.8 million for the year ended 31 December 2019 from RMB91.5 million for the year ended 31 December 2018. This increase was primarily due to the fact that the Company commenced operation of its five multi-player mobile games, which generated revenue of approximately RMB64.8 million in aggregate for the year ended 31 December 2019.

– Revenue generated from the Group's digital media content distribution decreased by approximately RMB24.1 million or 46.8% to RMB27.4 million for the year ended 31 December 2019 from RMB51.5 million for the year ended 31 December 2018. This decrease was primarily due to the decrease in subscribers resulting from the temporary halt of services of the Group's major distribution platform for the upgrade of the user interface during 2019.

Cost of sales

Cost of sales increased by approximately RMB58.9 million or 73.1% to RMB139.6 million for the year ended 31 December 2019 from RMB80.7 million for the year ended 31 December 2018. The increase was mainly due to an increase in service fee charged by the Group's distribution channel providers. For the year ended 31 December 2019, the percentage of cost of sales to total revenue increased to 63.7% (2018: 56.4%).

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB0.8 million or 48.9% to RMB0.9 million for the year ended 31 December 2019 from RMB1.7 million for the year ended 31 December 2018. The decrease was mainly attributable to the decrease in business development expenses as a result of a decrease in number of distribution channel providers.

Administrative expenses

Administrative expenses decreased by approximately RMB1.8 million or 18.2% to RMB8.1 million for the year ended 31 December 2019 from RMB9.9 million for year ended 31 December 2018. The decrease in administrative expenses was mainly attributable to the decrease in the staff costs and welfare of approximately RMB1.4 million, which was mainly due to the movement of staff for the year ended 31 December 2019.

Research and development expenses

Research and development expenses increased by approximately RMB1.6 million or 26.5% to RMB7.9 million for the year ended 31 December 2019 from RMB6.3 million for the year ended 31 December 2018. The increase was primarily due to the development of the Group's two self-developed multi-player games in 2019, costs of which are relatively higher than other single-player games.

Other income and gains

Other income and gains increased to RMB2.4 million for the year ended 31 December 2019 from RMB2.1 million for the year ended 31 December 2018, which is relatively stable.

Reversal of impairment of trade receivables

Reversal of impairment of trade receivables was RMB0.7 million for the year ended 31 December 2019, as compared to reversal of impairment of trade receivables of RMB17.3 million for the year ended 31 December 2018. The significant amount of reversal of impairment of trade receivables incurred during the year ended 31 December 2018 was mainly due to the recovery of the Group's impaired trade receivables in relation to one of the Group's settlement agents.

Other expenses

Other expenses for the year ended 31 December 2019 was RMB9.7 million, as compared to other expenses of RMB4.6 million for the year ended 31 December 2018. The increase was mainly due to the increase in listing expenses of RMB4.5 million for the year ended 31 December 2019.

Finance cost

Finance cost for the year ended 31 December 2019 was RMB1.0 million (2018: RMB0.6 million), which are in relation to the issuance of pre-IPO convertible bonds during 2018.

Income tax expense

The Group recognised income tax expense of RMB13.9 million for the year ended 31 December 2019 while the income tax expense was RMB7.0 million for the year ended 31 December 2018. The effective tax rate increased from 12.0% for the year ended 31 December 2018 to 25.2% for the year ended 31 December 2019 mainly due to (i) the reversal of impairment loss on the trade receivables of RMB17.3 million for the year ended 31 December 2018, which was income not taxable; (ii) the listing expenses incurred of RMB9.1 million for the year ended 31 December 2019, which was non-deductible for tax purposes; and (iii) the impact of 10% withholding tax levied on a portion of the retained earnings of our Group's PRC subsidiaries distributable to foreign investment enterprises upon the set up of Contractual Arrangements of our Group in February 2019 (i.e. our "PRC Withholding Tax"). Excluding the listing expenses and the impact of the PRC Withholding Tax, our effective tax rate would be 19.5% for the year ended 31 December 2019.

Profit for the year

The profit for the year ended 31 December 2019 was RMB41.2 million, as compared to the profit of RMB51.7 million for the year ended 31 December 2018. The net profit margin decreased from 36.1% for the year ended 31 December 2018 to 18.8% for the year ended 31 December 2019 mainly due to (i) listing expenses incurred of RMB9.1 million for the year ended 31 December 2019; (ii) the significant amount of reversal of trade receivables incurred in the year ended 31 December 2018; and (iii) decrease in gross profit margin as discussed above.

Adjusted profit for the year

Excluding the listing expenses and reversal of impairment of trade receivables, the adjusted profit for the year ended 31 December 2019 was RMB49.6 million, which increased by approximately RMB10.7 million or 27.2% as compared to the adjusted profit of RMB38.9 million for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash and cash equivalents	**50,899**	89,270

The Group's total cash and cash equivalent amounted to RMB50.9 million as at 31 December 2019, as compared to RMB89.3 million as at 31 December 2018. The decrease was mainly due to an increase in trade receivables fo RMB25.6 million, because of the delay in settlement from a major settlement agent and distribution channel provider for the mobile games and digital media of the Group, resulting from the upgrade of its settlement platforms.

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of fundings, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi ("**RMB**"), followed by Hong Kong dollars ("**HKD**").

The Group did not have any bank borrowing balance as at 31 December 2019 and 2018. As at 31 December 2019, the Group's gearing ratio (calculated as bank borrowing divided by total assets) was nil (2018: nil). The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

On 27 February 2019, the Group disposed of the entire equity interests in the 28 Subsidiaries (as defined in the Prospectus) to Mr. Lu Jian, Mr. Liang Junhua and Ms. Su Shaoping, the shareholders of the Group, for considerations of RMB53.8 million, resulting in gains on disposal of the 28 Subsidiaries of RMB0.5 million.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant unrecorded contingent liabilities.

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of 64 employees, the majority of whom are based in Guangzhou. Total staff costs were approximately RMB8.6 million for the year ended 31 December 2019. The Group provides employees with competitive remuneration and various benefits including housing, pension, medical and unemployment benefit plan, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provide customized and continuous on-the-job training to our new employees by experienced mentors from relevant teams or departments.

EVENT AFTER THE REPORTING PERIOD

On 17 March 2020, the shares of the Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited and the net proceed raised from global offering were approximately HK$100.2 million.

PRINCIPAL RISKS AND UNCERTAINTIES

Although the Group has successfully established its mobile games, there are certain risks that could adversely affect the Group's operations and financial results due to the immaturity of the mobile game industry in PRC. The major hurdles include (i) new policies or any amendment to current policies in relation to mobile game industry, (ii) reliance on distribution channel providers, (iii) the game portfolio included games that are self-developed or licensed games, so the Group's operations may be adversely affected if the Group cannot seek alternatives in a timely manner; (iv) the Group may be exposed to payment delays or defaults from settlement agents, which would adversely affect the Group's cash flow financial results.

Meanwhile, for the Group's established digital media content , the major hurdles include external interruptions such as system disruption, hacking or service suspension on any of the distribution platforms or the publishing platform.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year Ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**219,194**	142,979
Cost of sales		**(139,622)**	(80,660)
Gross profit		**79,572**	62,319
Other income and gains	*4*	**2,409**	2,050
Selling and distribution expenses		**(861)**	(1,686)
Administrative expenses		**(8,067)**	(9,864)
Research and development expenses		**(7,934)**	(6,270)
Reversal of impairment of trade receivables		**706**	17,273
Other expenses		**(9,711)**	(4,550)
Finance cost		**(1,039)**	(569)
Profit before tax	*5*	**55,075**	58,703
Income tax expense	*6*	**(13,867)**	(7,036)
Profit for the year		**41,208**	51,667
Attributable to:			
Owners of the parent		**37,244**	47,689
Non-controlling interests		**3,964**	3,978
		41,208	51,667
Earnings per share attributable to ordinary equity holders of the parent			
Basic	*8*	**RMB9.5 cents**	RMB12.1 cents
Diluted		**RMB9.0 cents**	RMB11.8 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**41,208**	51,667
Other comprehensive loss		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(171)**	–
Profit and total comprehensive income for the year	**41,037**	51,667
Attributable to:		
Owners of the parent	**37,073**	47,689
Non-controlling interests	**3,964**	3,978
	41,037	51,667

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**536**	684
Deposit		**5,660**	–
Total non-current assets		**6,196**	684
Current assets			
Trade receivables	*9*	**66,733**	41,166
Prepayments, deposits and other receivables		**54,111**	17,909
Due from shareholders		**13,613**	13,637
Cash and cash equivalents		**50,899**	89,270
Total current assets		**185,356**	161,982
Current liabilities			
Trade payables	*10*	**16,032**	15,994
Contract liabilities		**4,304**	–
Other payables and accruals		**16,731**	44,813
Convertible bonds		**16,578**	15,757
Tax payable		**11,122**	1,743
Total current liabilities		**64,767**	78,307
Net current assets		**120,589**	83,675
Total assets less current liabilities		**126,785**	84,359
Non-current liabilities			
Deferred tax liabilities		**1,389**	–
Net assets		**125,396**	84,359

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**1**	1
Equity component of convertible bonds	**1,128**	1,128
Reserves	**114,519**	77,446
	115,648	78,575
Non-controlling interests	**9,748**	5,784
Total equity	**125,396**	84,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate and Group Information

Jiu Zun Digital Interactive Entertainment Group Holdings Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 1801, R&F To-win Building, 30 Huaxia Road, Zhujiang New Town, Tianhe District, Guangzhou, People's Republic of China ("**PRC**"). The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 March 2020.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the development and operation of mobile games and the distribution of digital media content in Mainland China.

2.1 Reorganization and basis of presentation

Pursuant to the reorganization of the Company in connection with the listing (the "**Listing**") of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Reorganization**"), the Company became the holding company of the companies now comprising the Group on 23 February 2019. The Reorganization mainly involved (i) the establishment of Guangzhou Jiu Zun Digital Entertainment Technology Development Company ("**Guangzhou Jiu Zun**") and the transfer of equity interests in Guangzhou Family Doctor Information Technology Company Limited ("**Family Doctor**") from the then certain shareholders of Family Doctor (collectively, the "Relevant Shareholders") to Guangzhou Jiu Zun; (ii) the entering into Structured Contracts arrangements as detailed below; and (iii) the establishment of Guangzhou Jiu Zun Interactive Entertainment Company Limited ("**WFOE**") and the incorporation/establishment of the Company and other investment holding companies and, inserting the Company at the top of the Group. The Reorganization has not resulted in any changes of economic substances of the businesses of the Group before and after the Reorganization. Accordingly, for the purpose of this report, the financial statements for the year has been presented as a continuation of Family Doctor and its subsidiaries by applying the pooling of interests method as if the Reorganization had been completed at the beginning of the earliest period presented.

Equity interests in subsidiaries and/or businesses held by parties other than the Relevant Shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the pooling of interests method.

The prevailing PRC laws and regulations restrict foreign ownership of companies that provide Internet cultural business, which include activities and businesses operated by the Group. The Group historically engaged in the development and operation of mobile games and the distribution of digital media content in Mainland China through Family Doctor and its subsidiaries.

In order to continue to conduct the development and operation of mobile games and the distribution of digital media content in Mainland China, while asserting control over the operations, and enjoying economic benefits of Guangzhou Jiu Zun and its subsidiaries (collectively, the "**PRC Operating Entities**"), WFOE entered into a series of structured contracts (the "**Structured Contracts**") with Guangzhou Jiu Zun and the shareholders of Guangzhou Jiu Zun on 23 February 2019. The Structured Contracts enable WFOE to exercise effective control over the PRC Operating Entities and, accordingly, WFOE has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Accordingly, the Company regards the PRC Operating Entities as indirect subsidiaries for the purpose of the financial statements of the PRC Operating Entities are consolidated in the financial statements for the earliest period presented. Details of the Reorganization are set out in the paragraphs headed "Corporate Reorganization" in the section headed "History, Reorganization and Group Structure" in the prospectus of the Company dated 27 February 2020 (the "**Prospectus**").

All intra-group transactions and balances have been eliminated on combination.

2.2 Basis of Preparation

The financial statements has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, had been early adopted by the Group in the preparation of the financial statements for the year ended 31 December 2018.

The financial statements has been prepared under the historical cost convention. They are presented in RMB and all values are rounded to the nestest thousand (RMB'000) except when otherwise indicated.

Basis for consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (Collectively referred to as the "**Group**") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3 Operating Segment Information

The Group is principally engaged in mobile game development and operation and digital media content distribution in Mainland China. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of revenue from external customers is presented.

(b) Non-current assets

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of non-current assets is presented.

Information about major customers

No revenues from the Group's transactions with a single customer amounted to 10% or more of the Group's revenues for the years ended 31 December 2019 and 2018.

4. Revenue, other Income and Gains

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Mobile games		
– Development and operation	**189,499**	90,611
– Information services	**2,310**	918
Digital media content distribution	**27,385**	51,450
Total revenue from contracts with customers	**219,194**	142,979
Timing of revenue recognition		
Point in time (note (a))	**154,440**	142,979
Over time (note (b))	**64,754**	–
Total revenue from contracts with customers	**219,194**	142,979

Notes:

(a) Including revenue from single player mobile games. Since they are downloaded and are fully functional once installed on each individual mobile device, the Group does not have the obligation for game operation and maintenance once the game is downloaded and neither has the access to the game data of each mobile device. Revenue is recognized upon the purchase of in-game items and premium features by players and all other criteria for revenue recognition are met.

(b) Including revenue from multi-player games. Since the Group has an implied obligation to provide the service which enables the virtual items to be consumed. Revenue is recognized ratably over the estimated average playing period of paying players, starting from the time when virtual items are delivered to the player's accounts and all other revenues recognition criteria are met.

An analysis of other income and gains is as follows:

	2019	2018
	RMB'000	*RMB'000*
Other income		
Interest income	**676**	655
Government grants*	**250**	813
Others	**583**	582
	1,509	2,050
Gains		
Gains on disposal of subsidiaries	**497**	–
Fair value gain on modification of convertible bonds	**403**	–
	900	–
	2,409	2,050

* Various government grants have been received by certain subsidiaries as these subsidiaries were qualified as High and New Technology Enterprises in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

5. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	2019 ***RMB'000***	2018 *RMB'000*
Cost of sales	**139,622**	80,660
Auditor's remuneration	**500**	500
Depreciation	**340**	332
Lease payments not included in the measurement of lease liabilities	**1,126**	1,065
Employee benefit expense (including directors' remuneration):		
Wages, salaries, bonuses and allowances	**7,681**	9,399
Pension scheme contributions	**938**	783
	8,619	10,182
Reversal of impairment of trade receivables, net	**(706)**	(17,273)
Impairment of deposits#	**661**	–
Loss on disposal of items of property, plant and equipment	**(3)**	–
Fair value gain on modification of convertible bonds	**(403)**	–

Included in "Other expenses" in the consolidated statement of profit or loss

6 Income Tax Expense

All subsidiaries of the Group established in the PRC are subject to PRC corporate income tax at a standard rate of 25% during the year, except for:

(i) Certain subsidiaries of the Group which qualified as High and New Technology Enterprises in Mainland China, were entitled to a lower PRC corporate income tax rate of 15%; and

(ii) Certain subsidiaries of the Group applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the PRC's State Administration of Taxation.

	2019	2018
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**12,478**	7,036
Deferred	**1,389**	–
Total tax charge for the year	**13,867**	7,036

7. Dividends

During the year ended 31 December 2018 and before the completion of the Reorganization, a subsidiary of the Group declared dividend of RMB46,500,000 to its then shareholders.

Subsequent to the end of the reporting period, a subsidiary of the Group declared dividend of approximately RMB13,613,000 to its then shareholders for settlement of amount due from shareholders to the Group before Listing.

No dividend has been paid or declared by the Company during the years ended 31 December 2019 and 2018.

Subsequent to the end of the reporting period, the Company proposed 2019 final dividend of HK2.52 cents per ordinary share, equivalent to RMB2.26 cents per ordinary share, totaling of approximately RMB12,362,000. The proposed final dividend for the year ended 31 December 2019 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the parent of RMB37,244,000 (2018: RMB47,689,000), and the weighted average number of ordinary shares of 392,560,000 (2018: 392,560,000) in issue during the year, on the assumption that the Capitalization Issue (as defined in the Prospectus) in connection with the Listing of the shares of the Company had been completed on 1 January 2018.

The calculation of the diluted earnings per share is based on the profit for the year attributable to owners of the parent, adjusted to reflect the interest on the convertible bonds and fair value gain on modification of convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of the convertible bonds into ordinary shares.

	2019	2018
	RMB'000	*RMB'000*
Earnings	**37,244**	47,689
Profit attributable to owners of the parent, used in the basic earnings per share calculation:		
Interest on convertible bonds	**1,039**	569
Fair value gain on modification of convertible bonds	**(403)**	–
	37,880	48,258

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation	**392,560,000**	392,560,000
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	**27,440,000**	16,313,644
	420,000,000	408,873,644

9 Trade Receivables

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade Receivables	**69,495**	44,866
Impairment	**(2,762)**	(3,700)
	66,733	41,166

The Group's trading terms with its debtors are on credit. The credit periods range from 30 to 90 days during the year. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non- interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**13,913**	6,477
31 to 60 days	**7,834**	7,699
61 to 90 days	**9,236**	7,335
91 to 180 days	**21,529**	9,825
181 to 365 days	**12,489**	9,538
Over 365 days	**1,732**	292
	66,733	41,166

10 Trade Payables

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**5,661**	2,773
1 to 2 months	**3,751**	3,332
2 to 3 months	**2,805**	1,916
Over 3 months	**3,815**	7,973
	16,032	15,994

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Use of Proceeds

The Company's Shares were listed on the Stock Exchange in March 2020 and the Company raised net proceeds of approximately HK$100.2 million from the initial public offering of the Shares on the Stock Exchange (the "**IPO**"). Up to the date of this results announcement, none of the net proceeds has been utilized.

Audit and Compliance Committee

The audit and compliance committee of the Company has reviewed together with the Board the accounting standards and practices adopted by the Group and the consolidated financial statements of the Company for the year ended 31 December 2019.

Scope of Work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the announcement have been agreed by the Group's auditor, Ernst & Young ("**EY**"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the code provisions as set out in the Corporate Governance Code and Corporate Governance Report as set in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange (the "**CG Code**").

Save as disclosed below, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2019.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. LU Jian serves as the chairman of the Board and the chief executive officer of the Company. In view of the ever-changing business environment in which the Group operates, the chairman and chief executive officer of the Company must be proficient in IT knowledge and be sensitive to fast and rapid market changes, including changes in users' preferences, in order to promote the different businesses of the Group. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Further, the Board considers that a separation of the roles of the chairman and chief executive officer may create unnecessary costs for the daily operations of the Group. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes at an appropriate time.

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct and procedures governing Directors' securities transactions in stringent compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the code of conduct and procedures governing Directors' securities transactions during the year ended 31 December 2019.

Closure of Register of Members

The register of members of the Company will be closed during the following periods:

(a) from Monday, 18 May 2020 to Thursday, 21 May 2020 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2020 annual general meeting. In order to be entitled to attend and vote at the 2020 annual general meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong Time) on Friday, 15 May 2020; and

(b) from Wednesday, 27 May 2020 to Friday, 29 May 2020 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to be qualified for the proposed final dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at the address as set out in subparagraph (a) above no later than 4:30 p.m. (Hong Kong Time) on Tuesday, 26 May 2020.

During the periods mentioned in sub-paragraphs (a) and (b) above, no transfer of shares will be registered.

Publication of the Annual Results and 2019 Annual Report

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jiuzundigital.com). The annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

Appreciation

The Board would like to express its sincere gratitude to the Shareholders, management teams, employees, business partners and customers of the Group for their continued support and contribution to the Group.

By order of the Board
Jiu Zun Digital Interactive Entertainment Group Holdings Limited
LU Jian
Chairman and Chief Executive Officer

Hong Kong, 30 March 2020

As at the date of this announcement, the executive Directors are Mr. LU Jian and Mr. LIANG Junhua; the non-executive Directors are Ms. SU Shaoping and Mr.TSUI Wing Tak; the independent non-executive Directors are Mr. ZHAO Junfeng, Mr. ZHUANG Wensheng and Ms. SONG Yi.