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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**" or "**we**" or "**us**" or "**our**") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019. The interim results have been reviewed by the Company's Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended 30 June		
	2020	2019	Change
	(RMB'000)	*(RMB'000)*	*(%)*
	(Unaudited)	(Unaudited)	
Revenue	**99,809**	113,148	–11.8
Gross profit	**30,912**	41,094	–24.8
Profit for the period	**7,212**	19,322	–62.7
Add:			
Listing expenses	**11,089**	8,039	+37.9
Adjusted profit for the period[1]	**18,301**	27,361	–33.1

Notes:

(1) "Adjusted profit" is not defined under the Hong Kong Financial Reporting Standards ("**HKFRSs**"). It is defined by the Group as net profit excluding the listing expenses. The Directors believe that they are useful supplements to the interim condensed 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

REVIEW OF OPERATION

Jiu Zun Digital is a digital entertainment content provider in People's Republic of China (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. The Group was successfully listed on 17 March 2020 on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"). During the six months ended 30 June 2020, majority of our revenue was derived from the sale of virtual items in our multi-player mobile games.

The Group's revenue decreased by approximately RMB13.3 million or 11.8% from approximately RMB113.1 million for the six months ended 30 June 2019 to approximately RMB99.8 million for the six months ended 30 June 2020. The decrease of the Group's revenue is mainly due to the decrease in revenue from our mobile game development and operation business by approximately RMB6.2 million and the decrease in revenue from digital media content distribution business of approximately RMB6.4 million. The gross profit also decreased by approximately RMB10.2 million or 24.8% from approximately RMB41.1 million for the six months ended 30 June 2019 to approximately RMB30.9 million for the six months ended 30 June 2020, which was principally due to the substantial decline of approximately 69.4% in revenue attributable to the single-player mobile games in the first half of the year ended 2020 ("**FY2020**") as compared to the same period of the year ended 2019 ("**FY 2019**"), which was principally due to the unexpected impacts against the Group in the second quarter of FY2020 after the Listing caused by the COVID-19 epidemic and the subsequent quarantine measures imposed by the PRC government, including, among others: (i) change of player preference from the single-player mobile games (of which the Group historically and primarily relied on in its financial performance) to multi-player mobile games during the second quarter of FY2020; and (ii) an unexpected increase in level of competition intensity during the second quarter of FY2020 resulting in the top-set places in the distribution platforms were mostly occupied by the games operated by the major game operators. Although the revenue from the development and operation of the multi-player mobile games increased by approximately 120.3% as compared to the revenue of the same business line of approximately RMB32.0 million for the six months ended 30 June 2019, the decline of revenue attributable to the single-player mobile games outweighed the promising performance of the multi-player mobile games, the Group invariably recorded a decline in the Group's overall revenue and its financial results.

The profit for the period decreased by approximately RMB12.1 million or 62.7% from approximately RMB19.3 million for the six months ended 30 June 2019 to approximately RMB7.2 million for the six months ended 30 June 2020. The decrease was primarily due to (i) the decrease in the gross profit generated from mobile games of approximately RMB6.3 million and gross profit generated from the digital media content distribution of approximately RMB3.5 million and (ii) the increase in the listing expenses of approximately RMB3.1 million which were net off by the decrease in the income tax expense of approximately RMB2.1 million. Excluding the listing expenses, the adjusted profit for the period decreased by approximately RMB9.1 million or 33.1% from approximately RMB27.4 million for the six months ended 30 June 2019 to approximately RMB18.3 million for the six months ended 30 June 2020. The net profit margin decreased from approximately 17.1% for the six months ended 30 June 2019 to approximately 7.2% for the six months ended 30 June 2020.

OUTLOOK

The Group has always been committed to be a digital entertainment content provider. According to an independent third-party research report, the gross billings from mobile online games grew from RMB56.2 billion in 2015 to RMB194.7 billion in 2019, with a compounded annual growth rate ("**CAGR**") of 36.4%. With the continuous rise in smartphone usage and major advancements in mobile internet technologies, mobile gaming, which is projected to remain as the most lucrative and the fastest-growing segment, is expected to grow at a CAGR of 19.3% from 2019 to reach RMB469.6 billion in 2024 and account for 80.3% of the overall online game industry.

An outbreak of COVID-19 in early 2020 has led to a major challenge for the global economy. Under the effective control measures of the PRC government, the epidemic has generally been under control. The COVID-19 is not expected to impact the mobile gaming industry as significant as other industries. Based on the current situation of the COVID-19, 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. However, the market competition is intense in the first half of FY2020. In the first half of FY2020, it was given to understand that most of the major active market players extra-released their games in the pipeline in order to capture the expanded market resulting in more intense competition. It was discovered that such hindsight was also shared by the other mobile game developers and operators.

PROSPECTS

For the second half year of FY2020, the Company will continue to switch its focus from single-player mobile games development and operation business to multi-player mobile games development and operation business due to the change of player preference from single-player mobile games to multi-player mobile games in the second quarter of FY2020. In second half of FY2020, the Company plan to launch another licensed multi-player mobile game, which genre is sword and fairy. In addition, one more multi-player mobile game with board and card genre is expected to be launched in the first quarter of FY2021.With the shift of focus of the Group to multi-player mobile game development and operation business, majority of the Group's revenue is expected to be derived from multi-player mobile game development and operation business in the second half of FY2020.

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:

	Six months ended 30 June		
	2020	2019	Change *(%)*
Game			
Number of paying players (in million)	**1.7**	6.3	–73.0
Average MPUs (in million)	**0.3**	1.1	–72.7
Average ARPPU (RMB)	**60.07**	23.02	+160.9

— MPUs. The average monthly paying users ("**MPUs**") for the game business decreased to approximately 0.3 million for the six months ended 30 June 2020 from approximately 1.1 million for the six months ended 30 June 2019. This decrease was primarily due to the change of player preference from single-player mobile games to multi-player mobile games in second quarter of FY2020. The number of paying players from single-player mobile games decreased in the first half of FY2020.

— ARPPU. Monthly average revenue per paying user ("**ARPPU**") level of game business increased to approximately RMB60.07 for the six months ended 30 June 2020 as compared to approximately RMB23.02 for the six months ended 30 June 2019. This increase was primarily due to the fact that larger proportion of game revenue was derived from multi-player mobile game development and operation. The Group operated eight multi-player mobile games for the six months ended 30 June 2020 which offered virtual items at a relatively high unit purchase price.

The following table sets forth the Group's interim condensed consolidated statement of profit or loss for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019:

	Six months ended 30 June		
	2020	2019	Change
	RMB'000	*RMB'000*	*(%)*
	(Unaudited)	(Unaudited)	
Revenue	**99,809**	113,148	–11.8
Cost of sales	**(68,897)**	(72,054)	–4.4
Gross profit	**30,912**	41,094	–24.8
Other income and gains	**1,525**	1,181	+29.1
Selling and distribution expenses	**(620)**	(390)	+59.0
Administrative expenses	**(6,303)**	(3,607)	+74.7
Research and development expenses	**(2,762)**	(3,201)	–13.7
Impairment of trade receivables	**(140)**	(127)	+10.2
Other expenses	**(10,934)**	(8,701)	+25.7
Finance costs	**(136)**	(506)	–73.1
Profit before tax	**11,542**	25,743	–55.2
Income tax expense	**(4,330)**	(6,421)	–32.6
Profit for the period	**7,212**	19,322	–62.7

Revenue

Revenue decreased by approximately RMB13.3 million or 11.8% to approximately RMB99.8 million for the six months ended 30 June 2020 from approximately RMB113.1 million for the six months ended 30 June 2019. The following table sets forth the revenue of the Group by business segment for the six months ended 30 June 2019 and 2020:

	Six months ended 30 June			
	2020		2019	
	RMB'000 **(Unaudited)**	***% to total revenue***	*RMB'000* (Unaudited)	*% to total revenue*
Revenue from contracts with customers				
Mobile games				
— Development and operation	**90,329**	**90.5**	96,501	85.3
— Information services	**144**	**0.1**	939	0.8
Digital media content distribution	**9,336**	**9.4**	15,708	13.9
Total revenue from contracts with customers	**99,809**	**100.0**	113,148	100.0

— Revenue generated from the Group's mobile games decreased by approximately RMB6.9 million or 7.2% to approximately RMB90.5 million for the six months ended 30 June 2020 from approximately RMB97.4 million for the six months ended 30 June 2019. Such decrease was primarily due to the substantial decline of approximately 69.4% in revenue attributable to the single-player mobile games in the first half of FY2020 as compared to the same period of 2019, which was principally due to the unexpected impacts against the Group in the second quarter of FY2020 after the Listing caused by the COVID-19 epidemic and the subsequent quarantine measures imposed by the PRC government, including, among others: (i) change of player preference from the single-player mobile games (of which the Group historically and primarily relied on in its financial performance) to multi-player mobile games during the second quarter of FY2020; and (ii) an unexpected increase in level of competition intensity during the second quarter of FY2020 resulting in the top-set places in the distribution platforms were mostly occupied by the games operated by the major game operators. Although the revenue from the development and operation of the multi-player mobile games increased by approximately 120.3% as compared to the revenue of the same business line of approximately RMB32.0 million for the six months ended 30 June 2019, the decline of revenue attributable to the single-player mobile games outweighed the promising performance of the multi-player mobile games, the Group invariably recorded a decline in the Group's overall revenue from mobile games.

— Revenue generated from the Group's digital media content distribution decreased by approximately RMB6.4 million or 40.6% to approximately RMB9.3 million for the six months ended 30 June 2020 from approximately RMB15.7 million for the six months ended 30 June 2019. Such 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 the six months ended 30 June 2020.

Cost of sales

Cost of sales decreased by approximately RMB3.2 million or 4.4% to approximately RMB68.9 million for the six months ended 30 June 2020 from approximately RMB72.1 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in service fee charged by the Group's distribution channel providers in line with the decrease in revenue. For the six months ended 30 June 2020, the percentage of cost of sales to total revenue increased to approximately 69.0% (for the six months ended 30 June 2019: 63.7%) mainly due to lower gross profit margin of multi-player mobile games than the single-player mobile games.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB0.2 million or 59.0% to approximately RMB0.6 million for the six months ended 30 June 2020 from approximately RMB0.4 million for the six months ended 30 June 2019. The increase was mainly attributable to the increase in advertising expenses and staff costs and welfare for the six months ended 30 June 2020.

Administrative expenses

Administrative expenses increased by approximately RMB2.7 million or 74.7% to approximately RMB6.3 million for the six months ended 30 June 2020 from approximately RMB3.6 million for the six months ended 30 June 2019. The increase in administrative expenses was mainly attributable to the increase in the staff costs and welfare of approximately RMB1.7 million and the increase in the post-listing expenses of approximately RMB0.6 million for the six months ended 30 June 2020.

Research and development expenses

Research and development expenses decreased by approximately RMB0.4 million or 13.7% to approximately RMB2.8 million for the six months ended 30 June 2020 from approximately RMB3.2 million for the six months ended 30 June 2019. The decrease was primarily due to the movement of staff for the six months ended 30 June 2020.

Other income and gains

Other income and gains increased to approximately RMB1.5 million for the six months ended 30 June 2020 from approximately RMB1.2 million for the six months ended 30 June 2019. The increase was mainly due to increase in interest income and government grants.

Impairment of trade receivables

Impairment of trade receivables was approximately RMB0.1 million for the six months ended 30 June 2020 and 2019, which remained stable.

Other expenses

Other expenses were approximately RMB10.9 million for the six months ended 30 June 2020, as compared to other expenses of approximately RMB8.7 million for the six months ended 30 June 2019. The increase was mainly due to the increase in listing expenses of approximately RMB3.1 million for the six months ended 30 June 2020.

Finance costs

Finance cost decreased to approximately RMB0.1 million for the six months ended 30 June 2020 from approximately RMB0.5 million for the six months ended 2019, which was in relation to the issuance of pre-IPO convertible bonds during 2018.

Income tax expense

The Group recognised income tax expense of approximately RMB4.3 million for the six months ended 30 June 2020 while the income tax expense was approximately RMB6.4 million for the six months ended 30 June 2019. The effective tax rate increased from approximately 24.9% for the six months ended 30 June 2019 to approximately 37.5% for the six months ended 30 June 2020 mainly due to (i) the increase in listing expenses of approximately RMB3.1 million for the six months ended 30 June 2020, which was non-deductible for tax purposes; and (ii) 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 a series of contractual arrangements entered into between WFOE, Guangzhou Jiu Zun and the relevant Shareholders ("**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 17.4% for the six months ended 30 June 2020.

Profit for the period

The profit for the six months ended 30 June 2020 was approximately RMB7.2 million, as compared to the profit of approximately RMB19.3 million for the six months ended 30 June 2019. The net profit margin decreased to approximately 7.2% for the six months ended 30 June 2020 from approximately 17.1% for the six months ended 30 June 2019 mainly due to (i) increase in listing expenses of approximately RMB3.1 million for the six months ended 30 June 2020; and (ii) decrease in gross profit margin as discussed above.

Adjusted profit for the period

Excluding the listing expenses, the adjusted profit for the six months ended 30 June 2020 was approximately RMB18.3 million, which decreased by approximately RMB9.1 million or 33.1% as compared to the adjusted profit of approximately RMB27.4 million for the six months ended 30 June 2019.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Cash and cash equivalents	**89,869**	50,899

The Group's total cash and cash equivalents amounted to approximately RMB89.9 million as at 30 June 2020, as compared to approximately RMB50.9 million as at 31 December 2019. The increase was mainly due to the receipt of net proceeds of approximately RMB79.2 million after the Listing.

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 30 June 2020 and 31 December 2019. As at 30 June 2020, the Group's gearing ratio (calculated as bank borrowing divided by total assets) was nil (As at 31 December 2019: nil). The borrowing requirements of the Group are not subject to seasonality.

MATERIAL ACQUISITION AND DISPOSAL

During the six months ended 30 June 2020, the Group did not have any material acquisition or disposal.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 30 June 2020, the Group had a total of 87 employees, the majority of whom are based in Guangzhou. Total staff costs were approximately RMB5.6 million for the six months ended 30 June 2020. 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

There were no significant subsequent events during the period from 30 June 2020 to the approval date of the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2020 by the Board.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised by the Company from the Listing are approximately HK$91.9 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). We will continue to utilize the net proceeds from the Global Offering in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 17 March 2020.

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 and 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 platforms.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June **2020** *RMB'000* (Unaudited)	2019 *RMB'000* (Unaudited)
Revenue	*4*	**99,809**	113,148
Cost of sales		**(68,897)**	(72,054)
Gross profit		**30,912**	41,094
Other income and gains	*4*	**1,525**	1,181
Selling and distribution expenses		**(620)**	(390)
Administrative expenses		**(6,303)**	(3,607)
Research and development expenses		**(2,762)**	(3,201)
Impairment of trade receivables		**(140)**	(127)
Other expenses		**(10,934)**	(8,701)
Finance cost		**(136)**	(506)
Profit before tax	*5*	**11,542**	25,743
Income tax expense	*6*	**(4,330)**	(6,421)
Profit for the period		**7,212**	19,322
Attributable to:			
Owners of the parent		**5,758**	17,314
Non-controlling interests		**1,454**	2,008
		7,212	19,322
Earnings per share attributable to ordinary equity holders of the parent	*8*		
Basic		**RMB1.2 cents**	RMB4.4 cents
Diluted		**RMB1.2 cents**	RMB4.2 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**7,212**	19,322
Other comprehensive income/(loss)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,247**	(231)
Total comprehensive income for the period	**8,459**	19,091
Attributable to:		
Owners of the parent	**7,005**	17,083
Non-controlling interests	**1,454**	2,008
	8,459	19,091

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2020 RMB'000 (Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**1,008**	536
Right-of-use assets		**1,970**	–
Prepayments and deposits		**53,717**	5,660
Total non-current assets		**56,695**	6,196
Current assets			
Trade receivables	*9*	**66,940**	66,733
Prepayments, deposits and other receivables		**63,270**	54,111
Financial assets at fair value through profit or loss		**9,600**	–
Due from shareholders		**–**	13,613
Cash and cash equivalents		**89,869**	50,899
Total current assets		**229,679**	185,356
Current liabilities			
Trade payables	*10*	**9,665**	16,032
Contract liabilities		**2,430**	4,304
Other payables and accruals		**12,431**	16,731
Convertible bonds		**12,544**	16,578
Lease liabilities		**1,053**	–
Tax payable		**4,674**	11,122
Total current liabilities		**42,797**	64,767
Net current assets		**186,882**	120,589
Total assets less current liabilities		**243,577**	126,785
Non-current liabilities			
Lease liabilities		**957**	–
Deferred tax liabilities		**1,780**	1,389
Total non-current liabilities		**2,737**	1,389
Net assets		**240,840**	125,396

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 *RMB'000* (Audited)
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**4,946**	1
Equity component of convertible bonds	**–**	1,128
Reserves	**225,717**	114,519
	230,663	115,648
Non-controlling interests	**10,177**	9,748
Total equity	**240,840**	125,396

NOTES

1. CORPORATE AND GROUP INFORMATION

Jiu Zun Digital 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, 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 period, 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. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised HKFRSs, which also include HKASs and interpretations) that the Group has adopted for the first time for the current period's financial statements:

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and impact of the revised HKFRSs are described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have material impact on the Group's interim condensed consolidated financial information.

The adoption of other revised HKFRSs has had no material impact on the interim condensed consolidated financial information of the Group.

Details of the Group's accounting policies applicable from 1 January 2020 are as follows:

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	Over the lease terms

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Investments and other financial assets

Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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

Basis for consolidation

The interim condensed consolidated financial statements include the financial statements of the Group for the six months ended 30 June 2020. 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 six months ended 30 June 2020 and 2019.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Mobile games		
— Development and operation	**90,329**	96,501
— Information services	**144**	939
Digital media content distribution	**9,336**	15,708
Total revenue from contracts with customers	**99,809**	113,148
Timing of revenue recognition		
Point in time *(note (a))*	**29,230**	81,106
Over time *(note (b))*	**70,579**	32,042
Total revenue from contracts with customers	**99,809**	113,148

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 mobile 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 players' accounts and all other revenue recognition criteria are met.

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income		
Interest income	**831**	472
Government grants*	**447**	–
Others	**247**	212
	1,525	684
Gains		
Gains on disposal of subsidiaries	**–**	497
	1,525	1,181

* 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):

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of sales	**68,897**	72,054
Depreciation of property, plant and equipment	**168**	168
Depreciation of right-of-use assets	**182**	–
Lease payments not included in the measurement of lease liabilities	**554**	565
Employee benefit expense (including directors' remuneration):		
Wages, salaries, bonuses and allowances	**5,378**	3,742
Pension scheme contributions	**208**	260
	5,586	4,002
Impairment of trade receivables, net	**140**	127
(Reversal of impairment)/impairment of deposits#	**(155)**	661
Write-off of items of property, plant and equipment	**2**	–

\# Included in "Other expenses" in the interim condensed 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 period, 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.

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current — Mainland China		
Charge for the period	**3,939**	6,421
Deferred	**391**	–
Total tax charge for the period	**4,330**	6,421

7. DIVIDENDS

During the six months ended 30 June 2020, a subsidiary of the Group declared dividend of approximately RMB13,613,000 (six months ended 30 June 2019: Nil) to its then shareholders for settlement of amounts due from the then shareholders to the Group before listing.

During the six months ended 30 June 2020, the Company declared a final dividend of HK$2.52 cents per ordinary share, equivalent to a total of approximately RMB12,362,000, for the year ended 31 December 2019 to its shareholders (the "**Shareholders**").

The board of directors do not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the period is based on the profit for the period attributable to owners of the parent of RMB5,758,000 (six months ended 30 June 2019: RMB17,314,000), and the weighted average number of ordinary shares of 465,944,615 (six months ended 30 June 2019: 392,560,000) in issue during the period, as if that the reorganisation and the capitalisation issue had been completed on 1 January 2018.

During the six months ended 30 June 2020 and 2019, the calculation of the diluted earnings per share is based on the profit for the period attributable to owners of the parent, adjusted to reflect the interest on the convertible bonds.

The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, 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 of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the parent, used in the basic earnings per share calculation:	**5,758**	17,314
Interest on convertible bonds	**119**	506
Profit attributable to owners of the parent before interest on convertible bonds	**5,877**	17,820

	Number of shares	
	Six months ended 30 June	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**465,944,615**	392,560,000
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**11,609,231**	27,440,000
	477,553,846	420,000,000

9. TRADE RECEIVABLES

	As at	
	30 June	31 December
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**69,842**	69,495
Impairment	**(2,902)**	(2,762)
	66,940	66,733

The Group's trading terms with its trade debtors are on credit. The credit periods range from 30 to 90 days during the period. The Group seeks to maintain strict control over its outstanding trade 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	
	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 30 days	**4,508**	13,913
31 to 60 days	**4,184**	7,834
61 to 90 days	**3,103**	9,236
91 to 180 days	**15,984**	21,529
181 to 365 days	**32,384**	12,489
Over 365 days	**6,777**	1,732
	66,940	66,733

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	
	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**1,482**	5,661
1 to 2 months	**1,543**	3,751
2 to 3 months	**1,177**	2,805
Over 3 months	**5,463**	3,815
	9,665	16,032

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 six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Audit and Compliance Committee

The audit and compliance committee of the Company have reviewed with the Board about the accounting standards and practices adopted by the Group and the interim condensed consolidated financial statements of the Company for the six months ended 30 June 2020.

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 six months ended 30 June 2020.

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 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 six months ended 30 June 2020.

Publication of the Unaudited Condensed Consolidated Interim Results and 2020 Interim Report

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jiuzundigital.com). The interim report of the Company for the six months ended 30 June 2020 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, 27 August 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; and the independent non-executive Directors are Mr. ZHAO Junfeng, Mr. ZHUANG Wensheng and Ms. SONG Yi.