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第七大道
7ROAD.COM

7Road Holdings Limited

第七大道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 797)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 (the “**Interim Results**”) together with the comparative information for the six months ended 30 June 2019. The Interim Results have been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the six months ended 30 June	
	2020	2019
	(RMB'000)	(RMB'000)
Revenue	198,325	103,484
Profit/(loss) for the period	32,526	(25,590)
Profit/(loss) for the period attributable to owners of the Company	32,379	(25,590)
Adjusted net profit/(loss) ⁽¹⁾	37,509	(1,223)
Adjusted net profit/(loss) attributable to owners of the Company	37,362	(1,223)

Note:

- (1) *Adjusted net profit/(loss) does not include share-based compensation costs. Please see “Non-IFRSs Measures” for details.*

1. For the six months ended 30 June 2020, the Company recorded a total revenue amounted to approximately RMB198.3 million, representing an increase of approximately 91.6% as compared with the six months ended 30 June 2019.
2. For the six months ended 30 June 2020, the Company recorded a profit for the period attributable to owners of the Company amounted to approximately RMB32.4 million, representing an increase of approximately 226.5% as compared with the six months ended 30 June 2019.
3. For the six months ended 30 June 2020, the non-IFRSs adjusted net profit attributable to owners of the Company amounted to approximately RMB37.4 million, representing an increase of approximately 3,154.9% as compared with the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is a leading game developer and operator in China with a global reach. Since our incorporation in 2008, we have been engaging in the R&D, operation and licensing of a number of popular games. A sizable portion of revenue is derived from the overseas markets and our games have been published in more than 100 countries and/or regions. We are also committed to bringing quality gameplay experience in various game formats to our users. In recent years, we have been strategically expanding our business focuses to develop and operate mobile games, which enjoy wide popularity among game players.

According to the “2020 Global Games Market Report” released by Newzoo in 2020, the global online game market in 2020 is expected to record a revenue of approximately US\$159.3 billion. The mobile-end game market remained the largest segmented market with an expected market revenue of approximately US\$72.2 billion, representing approximately 13.3% of the global online game market. Approximately 40% of the revenue in global game market would arise from smartphone games.

In 2020, revenue from the Asia Pacific online game market is expected to increase by approximately 9.9% as compared with 2019, amounting to over US\$78.4 billion and accounting for approximately 49.0% of the global online game market. The North American market remained the second largest online game market, and the revenue from this region in 2020 is expected to be over US\$40.0 billion, accounting for approximately 25.0% of the global online game market. The European, Middle East and African markets were expected to slightly fall behind the North American market in terms of game revenue growth, and the game revenue from these regions was expected to reach over US\$35.0 billion in total in 2020, accounting for approximately 22.0% of the global online game market. The Latin American online game market was expected to generate a revenue of US\$6.0 billion, accounting for approximately 4.0% of the global online game market.

According to “IH 2020 China Gaming Industry Report” jointly released by the Game Publishing Committee (GPC) of the China Audio-video and Digital Publishing Association* (中國音像與數字出版協會遊戲出版工作委員會) and the International Data Corporation (IDC), from January to June 2020, the actual sales revenue from China’s online game market amounted to approximately RMB139.493 billion, representing an increase of 22.34% as compared to the same period in 2019. From January to June 2020, the number of game players in China is expected to exceed almost 660 million, with a period-on-period increase of 1.97%.

For the first half of 2020, the Company recorded a total revenue of approximately RMB198.3 million, representing an increase of approximately 91.6% as compared to the same period of 2019. For the first half of 2020, the gross profit and gross profit margin of the Company were RMB154.6 million and 78.0%, respectively. For the first half of 2020, the Company recorded profit attributable to Shareholders amounted to approximately RMB32.4 million, which was mainly due to the profit contribution of Xinla Group, which was consolidated in the Group in the second half of 2019.

OUTLOOK FOR THE SECOND HALF OF 2020

In the second half of 2020, the Company will continue to strive to produce exquisite and high-quality game products. The Company will fully utilize the value of its existing intellectual properties (“IP”) and the experience accumulated over years in game development, to enrich the Company’s product portfolio and optimize the functions and rules in those newly developed games taking into full consideration of players’ experience.

The Company will, taking the in-game virtual commodity consumption as its basic profit model, actively explore diversified income streams in order to increase the revenue and improve the performance of the Company.

In the second half of 2020, we will continue to strategically expand overseas markets while focusing on the domestic market. We will be committed to updating and promoting our existing games and conducting R&D of new games to consolidate the domestic market and optimize our globalization strategy.

We plan to launch and test multiple 2D mobile games in the second half of 2020, of which, Alice Closet (愛麗絲的衣櫥), a dress up game popular among female players, has conducted the first-round user test in August with good testing data and positive feedback from users; Arkadia (阿卡迪亞), a 2D card game, is expected to be published in November 2020. At the same time, we will participate in the development of the first-line animation IP, Silver Soul (銀魂). As it is the first self-developed mobile game of Silver Soul series in China, we focus on reproducing the original humorous storyline and strive to provide a mobile game with original taste to a large number of Silver Soul series fans in China. In early 2020, we designed and developed The Prosperity 3 (盛世3) project based on the current development of China's game market and game market of legendary series, after taking into account our own project advantages and needs of users. The Prosperity 3 is a boutique, long-term, social, mobile game of legendary series, which is expected to find further exploration in the current competitive and repetitive game market of legendary series. The Company holds positive expectation towards the peak gross billing of The Prosperity 3, the final technical test of which is about to commence, and it is expected to be officially published around the fourth quarter of 2020. The Dragon Slayer (屠龍世界) is a massive multiplayer online role-playing mobile game. The game adopts real-time combat mode. Data-deletion test is expected to take place in August 2020 and will be published in September 2020.

The mobile game of the Company's classic IP, Wartune (神曲) will also be tested overseas recently. We are also preparing for the development of a new game under the Company's core IP, namely DDTank Retro (彈彈堂懷舊版) and a 3D mobile game under a first-tier Japanese animation IP, which are expected to be launched for online testing in 2021. We will try to participate in more different segmented areas, including the attempts and preparations for products such as casual competition and feminine games, with an aim of capturing more market opportunities.

According to the Company's development strategy, the Company will selectively acquire or invest in IP with great potential or high-quality R&D and publishing companies on the industry chain from third parties, such as popular fictions, comics, and social networks. We will also seek strategic partnerships with outstanding game developers or publishers to enhance the Group's business. As disclosed in the announcement of the Company dated 27 April 2020, the Company is proposing a new acquisition where the subject company is a boutique game R&D company that is well-known in the industry and has launched multiple popular games with great success. As of the date of this announcement, the Company is in the process of negotiating the detailed terms of the transaction. If the acquisition is completed in the second half of 2020, it will expand the Company's game portfolio and enhance the Company's game development capabilities, promoting the Company's performance to a new level. The Company will strive to integrate, coordinate and optimize its existing business resources with the resources of business acquired or to be acquired, such as its R&D capabilities, game products, marketing channels, operation and management and its current game players. We will take this opportunity to further improve our layout in the game industry, as well as enhance our integrated competitiveness, resource control ability, ability to maintain sustainable business growth and risk resistance capability, and thereby solidifying, developing and enhancing our position in the industry.

In addition, the Company is also paying attention to the development of 5G networks and conducting in-depth research and analysis of the possible impact of the 5G era on the cultural and entertainment industries. The Company will keep pace with the new development trend of the game industry in the 5G era, and make plans to seize market share of cloud gaming and game cloud in the 5G era starting to capture opportunities.

The utilization of IP will still remain as an integral part of our long-term strategy. In the second half of 2020, we will continue to concentrate our efforts on R&D in terms of the IP by ways of IP licensing and cooperating with other outstanding developers; and continue to recruit more talents and retain the existing talents with attractive compensation policies to enhance our IP R&D capabilities. In the meantime, we will actively pursue appropriate opportunities for investments and cooperations.

CORONAVIRUS DISEASE 2019 IMPACT

After the outbreak of Coronavirus Disease 2019 (“**COVID-19**”) in 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC, including certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc.

In view of the outbreak of the COVID-19 epidemic, the Group has taken a series of necessary health precaution to mitigate the potential impact of the COVID-19 epidemic outbreak, including the implementation of prevention and control policies released by the relevant government authorities and adopting flexible work-from-home practices. Due to the nature of the Company in gaming industry, as at the date of this announcement, the Group does not anticipate any significant adverse financial or operational impacts resulting from the COVID-19 epidemic. The Group will pay close attention to the situation of the COVID-19 epidemic and continue to assess the impact of the epidemic disease on the Group's finances and operations from time to time, as the case may be.

FINANCIAL REVIEW

Operational Information

Our Games

For the six months ended 30 June 2020, we continued to focus on the R&D and operation of high-quality games to face the ever-growing competition in the game industry. Despite being affected by the global COVID-19 epidemic, the Company still performed well in its principal business. The launched DDTank (彈彈堂) series contributed a turnover of approximately RMB156 million in the first half of 2020, representing an increase of 35% as compared to the corresponding period in 2019, of which DDTank Web (頁遊彈彈堂) increased by 37% period-on-period, DDTank Mobile (手遊彈彈堂) increased by 44% period-on-period, and classic DDTank Web (經典版頁遊彈彈堂) increased by 47% period-on-period. In addition, DDTank Mobile was launched in the Asia-Pacific region in March 2020, and it has been well-performed and enjoyed popularity among users. At the same time, the Company continued to promote it. The product turnover of Wartune (神曲) series for the six months ended 30 June 2020 is generally the same as the corresponding period of 2019. We will continue to develop and operate high-quality online games and exploit our experiences in the game industry. Also, we will continue to innovate and launch new games in order to attract more players.

Our Players

We assess the operating performance with a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in our operating data are primarily a result of changes in the number of players who play, download (in the case of mobile games) and pay for virtual items and premium features in our games. Using these operating data as our key performance indicators allows us to monitor our ability to offer highly engaging online games and helps us to increase the continuous popularity of our games, gain the monetization of our player base and deal with the intense competition in the online game industry, so that we can implement better business strategies.

For the six months ended 30 June 2020, our web games had (i) an average MAUs of approximately 1.2 million; (ii) an average MPUs of approximately 65,000; (iii) an ARPPU of approximately RMB392.4; and our mobile games had (i) an average MAUs of approximately 1.3 million; (ii) an average MPUs of approximately 134,000; (iii) an ARPPU of approximately RMB446.1.

The Six Months Ended 30 June 2020 Compared to The Six Months Ended 30 June 2019

The following table sets forth the comparative statements of profit or loss for the six months ended 30 June 2020 and the six months ended 30 June 2019.

	For the six months ended	
	30 June	
	2020	2019
	(RMB'000)	(RMB'000)
Revenue	198,325	103,484
Cost of revenue	(43,682)	(18,296)
Gross profit	154,643	85,188
Research and development expenses	(67,849)	(44,960)
Selling and marketing expenses	(15,891)	(85)
Administrative expenses	(37,405)	(41,058)
Net reversal of impairment losses/(impairment losses) on financial assets	14,225	(1,641)
Other income	11,065	4,388
Other losses, net	(37,534)	(33,001)
Operating profit/(loss)	21,254	(31,169)
Finance income	462	309
Finance costs	(1,778)	(1,450)
Finance costs, net	(1,316)	(1,141)
Share of results of a joint venture	(1,781)	—
Profit/(loss) before income tax	18,157	(32,310)
Income tax credit	14,369	6,720
Profit/(loss) for the period	32,526	(25,590)
Add:		
Share-based compensation costs	4,983	24,367
Adjusted net profit/(loss)⁽¹⁾	37,509	(1,223)
Adjusted net profit/(loss) attributable to the owners of the Company	37,362	(1,223)

Note:

(1) See “Non-IFRSs Measures” for details.

Revenue

The following table sets forth the comparative breakdown of our revenue for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June			
	2020		2019	
	(RMB'000)	(% of total revenue)	(RMB'000)	(% of total revenue)
Types of goods or services				
Online game revenue	189,213	95.4%	102,346	98.9%
— Self-development games				
published by the Group	11,156	5.6%	3,448	3.3%
published by other publishers	174,466	88.0%	86,561	83.7%
— Licensed games				
published by the Group	2,400	1.2%	3,367	3.2%
published by other publishers	1,191	0.6%	8,970	8.7%
Sales of online game technology and publishing solutions services	7,911	4.0%	—	—
Intellectual property licensing	1,201	0.6%	1,138	1.1%
Total	198,325	100.0%	103,484	100.0%

For the six months ended 30 June 2020, the Group recorded a total revenue amounted to approximately RMB198.3 million, representing an increase of approximately 91.6% as compared with the six months ended 30 June 2019. Such increase was mainly attributable to the revenue contribution of Xinla Group which was consolidated into the Group in the second half of 2019.

Cost of Revenue

Our cost of revenue mainly comprises employee salary and benefit expense, advertising and promotion fee and amortization of game IP. The cost of revenue amounted to approximately RMB43.7 million for the six months ended 30 June 2020, representing an increase of approximately 138.8% as compared to approximately RMB18.3 million for the six months ended 30 June 2019. Such increase was mainly due to the higher cost of principal business of the Xinla Group which was consolidated into the Group in the second half of 2019.

Gross Profit and Gross Profit Margin

Our gross profit amounted to approximately RMB154.6 million for the six months ended 30 June 2020, representing an increase of approximately 81.5% as compared to approximately RMB85.2 million for the six months ended 30 June 2019. Such increase was mainly attributable to the gross profit contribution of Xinla Group which was consolidated in the Group in the second half of 2019.

Our gross profit margin was approximately 78.0% for the six months ended 30 June 2020, representing a decrease of 4.3 percentage points as compared to approximately 82.3% for the six months ended 30 June 2019. Such decrease was mainly attributable to the larger increase of gross profit margin over the increase of revenue.

Expenses

R&D Expenses

Our R&D expenses mainly comprise employee salary and benefit expenses incurred by our R&D department, outsourcing expenses and amortization of game IP. The R&D expenses amounted to approximately RMB67.8 million for the six months ended 30 June 2020, representing an increase of approximately 50.9% as compared to approximately RMB45.0 million for the six months ended 30 June 2019. Such increase was mainly due to the impact on the R&D expenses of Xinla Group which was consolidated into the Group in the second half of 2019.

Administrative Expenses

Our administrative expenses mainly comprise employee salary and benefit expenses and professional consulting fees. The administrative expenses amounted to approximately RMB37.4 million for the six months ended 30 June 2020, representing a decrease of 8.9% as compared to approximately RMB41.1 million for the six months ended 30 June 2019. Such decrease was mainly due to the decrease in professional consulting service fees.

Selling and Marketing Expenses

Our selling and marketing expenses mainly comprise advertising expenses incurred by our marketing department. The selling and marketing expenses amounted to approximately RMB15.9 million for the six months ended 30 June 2020, representing an increase of approximately 18,595.3% as compared to approximately RMB0.1 million for the six months ended 30 June 2019. Such increase was mainly due to the impact on the selling expenses of Xinla Group which was consolidated into the Group in the second half of 2019.

Income Tax Expenses

The income tax credit increased for the six months ended 30 June 2020, which was mainly due to certain subsidiaries with a higher deferred income tax regarding on loss. The estimated income tax rates applicable to the Group entities (excluding the entities that are currently tax exempted) for the period ended 30 June 2020 vary from 15% to 25% (2019:15%-25%).

Profit for the Period

For the six months ended 30 June 2020, our profit attributable to owners of the Company amounted to approximately RMB32.4 million, representing an increase of approximately 226.5% as compared with the six months ended 30 June 2019. Such increase was mainly attributable to the profit contribution of Xinla Group which was consolidated in the Group in the second half of 2019.

Non-IFRSs Measures

To supplement our consolidated financial information which is presented in accordance with IFRSs, we set forth below our adjusted net profit/(loss) as an additional financial measure which is not presented in accordance with IFRSs. We believe this is meaningful because potential impacts of certain items which our management does not consider closely relevant to our operating performance have been eliminated, and this would be useful for investors to compare our financial results directly with those of our peer companies.

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely the share-based compensation costs. The term “adjusted net profit” is not defined under IFRSs. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the relevant period. The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRSs:

	For the six months ended 30 June	
	2020	2019
	(RMB'000)	(RMB'000)
Profit/(loss) for the period	32,526	(25,590)
Add:		
Share-based compensation costs	<u>4,983</u>	<u>24,367</u>
Adjusted net profit/(loss)	<u>37,509</u>	<u>(1,223)</u>
Adjusted net profit/(loss) attributable to:		
— Owners of the Company	37,362	(1,223)
— Non-controlling interests	<u>147</u>	<u>—</u>
	<u>37,509</u>	<u>(1,223)</u>

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit for the period, operating profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, because such measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

Liquidity and Capital Resources

	As at	As at	
	30 June 2020	30 June 2019	Change
	(RMB'000)	(RMB'000)	%
Cash at bank and on hand	130,390	246,824	-47.2%
Restricted funds	<u>1,941</u>	<u>2,224</u>	<u>-12.7%</u>
Total	<u>132,331</u>	<u>249,048</u>	<u>-46.9%</u>

As of 30 June 2020, our cash at bank and on hand and restricted funds amounted to approximately RMB132.3 million, as compared with approximately RMB45.9 million as of 31 December 2019. Such increase was mainly attributable to great efforts on collecting receivables made by the Group.

Gearing Ratio

As of 30 June 2020, our gearing ratio, which is calculated as total debt divided by total assets, was approximately 35.7%, as compared with approximately 42.6% as of 31 December 2019. The decrease was mainly due to profit generated for six month ended 30 June 2020 and payment to acquisition of Xinla Group.

Capital Expenditure

	As at 30 June 2020 (RMB'000)	As at 30 June 2019 (RMB'000)	Change %
Office computer and electronic equipment	262	32	718.8%
Office furniture and leasehold improvement	1,250	0	—
Vehicles	332	0	—
Houses and buildings	0	509	-100.0%
Software	1,500	0	—
Total	3,344	541	518.1%

Our capital expenditure includes office computer and electronic equipment, office furniture and leasehold improvements, vehicles, houses and buildings and software. For the six months ended 30 June 2020 and 2019, total capital expenditure was amounted to approximately RMB3.3 million and RMB0.5 million respectively.

Foreign Exchange Risk

The Group operates in overseas markets through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises primarily from recognised assets and liabilities when foreign currency is or will be received from overseas counterparties. For the six months ended 30 June 2020, the Group does not have policies to hedge any foreign currency fluctuations.

CHARGE ON ASSETS

As of 30 June 2020, a property for our own use was pledged to secure a bank loan granted to us in September 2016.

In March 2020, the Group received a loan from a bank of RMB15,000,000 at an interest rate of one-year Loan Prime Rate plus 1.3875% per annum. The borrowing was secured by certain property, plant and equipment, right of use assets and trade receivables of the Group.

Save as disclosed above, there was no other material charge on the Group's assets as of 30 June 2020.

CONTINGENT LIABILITIES AND GUARANTEES

As of 30 June 2020, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation against us.

SIGNIFICANT INVESTMENTS HELD

Save as disclosed in this announcement, the Group did not have other significant investments held as of 30 June 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Reference is made to the announcement of the Company dated 27 April 2020, the Group, as the potential purchaser, and the potential vendor in relation to the potential acquisition of Beijing Locojoy Technology Co., Ltd.* (北京樂動卓越科技有限公司) are in the process of negotiating the detailed terms and conditions of the potential acquisition. The Group will make further announcement(s) in relation to the potential investment and the potential acquisition as and when appropriate.

Save as disclosed above in this announcement, the Company did not have other future plans for material investments or capital assets as of the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group did not have any other material acquisitions and disposals of subsidiaries and associates during the six months ended 30 June 2020.

EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2020, we had 455 full-time employees, mostly based in Shenzhen, Wuxi and Shanghai, China. The following table sets out the number of our employees by function as at 30 June 2020:

Function	Number of Employees	% of total
R&D	288	63.3%
Operation	81	17.8%
Administration	86	18.9%
Total	455	100.0%

For the six months ended 30 June 2020, our employee remuneration amounted to approximately RMB63 million (including salary, bonus, share-based compensation, pension scheme contribution, other social security fund and other employee benefits).

The remuneration of our employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, performance-related bonus, RSUs, allowances and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customized training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to our business. They receive compensation in the form of salaries, performance-related bonus, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension schemes on their behalf.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

As at the date of this announcement, the Group did not have any significant events after the Reporting Period.

FINANCIAL INFORMATION

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	198,325	103,484
Cost of revenue	7	(43,682)	(18,296)
Gross profit		154,643	85,188
Research and development expenses	7	(67,849)	(44,960)
Selling and marketing expenses	7	(15,891)	(85)
Administrative expenses	7	(37,405)	(41,058)
Net reversal of impairment losses/(impairment losses) on financial assets	7	14,225	(1,641)
Other income	5	11,065	4,388
Other losses, net	6	(37,534)	(33,001)
Operating profit/(loss)		21,254	(31,169)
Finance income	8	462	309
Finance costs	8	(1,778)	(1,450)
Finance costs, net	8	(1,316)	(1,141)
Share of results of a joint venture	15	(1,781)	—
Profit/(loss) before income tax		18,157	(32,310)
Income tax credit	9	14,369	6,720
Profit/(loss) for the period		32,526	(25,590)
Profit/(loss) attributable to:			
— Owners of the Company		32,379	(25,590)
— Non-controlling interests		147	—
Earnings/(losses) per share for profit attributable to owners of the Company (expressed in RMB per share):	10		
Basic earnings/(losses) per share		0.013	(0.010)
Diluted earnings/(losses) per share		0.013	(0.010)

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit/(loss) for the period	32,526	(25,590)
Other comprehensive (loss)/income:		
<i>Item that will not be reclassified to profit or loss</i>		
Fair value changes on financial assets at fair value through other comprehensive income, net of tax	—	(1,031)
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	(12,080)	1,100
Other comprehensive (loss)/income, net of tax	(12,080)	69
Total comprehensive income/(loss) for the period	20,446	(25,521)
Total comprehensive income/(loss) attributable to:		
— Owners of the Company	20,299	(25,521)
— Non-controlling interests	147	—

Interim Condensed Consolidated Balance Sheet

As at 30 June 2020

		As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Assets			
Non-current assets			
Property, plant and equipment	12	18,009	17,630
Right-of-use assets	13	79,996	83,087
Intangible assets	14	823,267	856,188
Interest in a joint venture	15	1,435	3,216
Financial assets at fair value through other comprehensive income		794	794
Financial assets at fair value through profit or loss	18	2,357	2,357
Prepayment and other receivables	17	260,709	113,059
Restricted cash		1,941	1,935
Deferred income tax assets		24,625	18,741
		<u>1,213,133</u>	<u>1,097,007</u>
Current assets			
Trade receivables	16	253,145	229,673
Prepayment and other receivables	17	77,552	442,483
Income tax recoverable		13,403	17,317
Financial assets at fair value through profit or loss	18	85,106	111,469
Restricted cash		—	1
Cash and cash equivalents		130,390	44,011
		<u>559,596</u>	<u>844,954</u>
Total assets		<u><u>1,772,729</u></u>	<u><u>1,941,961</u></u>
Current liabilities			
Trade and other payables	24	334,210	332,459
Lease liabilities		5,335	5,093
Borrowings	22	22,323	9,058
Current income tax liabilities		46,657	53,052
Contract liabilities	23	54,874	61,910
		<u>463,399</u>	<u>461,572</u>
Net current assets		<u>96,197</u>	<u>383,382</u>
Total assets less current liabilities		<u><u>1,309,330</u></u>	<u><u>1,480,389</u></u>

		As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Liabilities			
Non-current liabilities			
Other payables	24	90,428	273,750
Lease liabilities		5,211	7,895
Borrowings	22	32,227	35,296
Deferred tax liabilities		41,201	48,614
		169,067	365,555
Net assets		1,140,263	1,114,834
Equity			
Share capital	19	86	86
Share premium		3,791,696	3,791,696
Other reserves	20	(2,984,431)	(2,977,334)
Retained earnings		334,193	301,814
Total equity attributable to owners of the Company		1,141,544	1,116,262
Non-controlling interests		(1,281)	(1,428)
Total equity		1,140,263	1,114,834

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

1. GENERAL INFORMATION

7Road Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 6 September 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Sertus Chambers, Governors Square, Suite #5–204, 23 Lime Tree Bay Avenue, P.O. Box 2547, Grand Cayman, KY1–1104, the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the development and distribution of web games and mobile games in the People’s Republic of China (the “**PRC**”) and other countries and regions.

This Interim Condensed Consolidated Financial Information is presented in Renminbi Yuan (“**RMB**”), unless otherwise stated, and is approved for issue by the Board of Directors on 31 August 2020. This Interim Condensed Consolidated Financial Information has not been audited.

2. BASIS OF PREPARATION

This Interim Condensed Consolidated Financial Information has been prepared in accordance with International Accounting Standards (“**IAS**”) 34, “Interim Financial Reporting” issued by the International Accounting Standards Board and does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, as set out in the 2019 annual report of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The Interim Condensed Consolidated Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and contingent consideration payable for acquisition of a subsidiary, which are carried at fair value.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”), the accounting policies and methods of computation used in the Interim Condensed Consolidated Financial Information for the six months ended 30 June 2020 are the same as those presented in the annual consolidated financial statements for the year ended 31 December 2019, as set out in the 2019 annual report of the Company.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”), for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Interim Condensed Consolidated Financial Information:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to IFRS 16 “COVID-19-Related Rent Concessions”.

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in the Interim Condensed Consolidated Financial Information.

4. SEGMENT INFORMATION AND REVENUE

The Group’s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group’s operations are operated and managed as a single segment and no segment information is presented, accordingly.

Revenue for the six months ended 30 June 2020 and 2019 are as follows:

	Six months ended 30 June	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Types of goods or services		
Online game revenue	189,213	102,346
— Self-development games		
<i>published by the Group</i>	11,156	3,448
<i>published by other publishers</i>	174,466	86,561
— Licensed games		
<i>published by the Group</i>	2,400	3,367
<i>published by other publishers</i>	1,191	8,970
Sales of online game technology and publishing solutions services	7,911	—
Intellectual property licensing	1,201	1,138
	<u>198,325</u>	<u>103,484</u>

Revenues of approximately RMB147,056,000 were derived from the five largest single external customers for the six months ended 30 June 2020 (2019: RMB72,998,000).

During the six months ended 30 June 2020, revenue of approximately RMB86,212,000 and RMB25,780,000 was derived from two single external customer accounted for more than 10% of the total revenue (2019: RMB42,130,000 and RMB14,820,000 were derived from two single external customers respectively).

5. OTHER INCOME

	Six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Government grants (<i>note</i>)	3,525	2,831
Value added tax (“VAT”) refunds (<i>note</i>)	1,401	1,557
Compensation income (<i>Note 17(c)</i>)	1,772	—
Interest income on receivable from disposal of investments (<i>Note 17(d)</i>)	2,735	—
Rent concession income	140	—
Others	1,492	—
	<u>11,065</u>	<u>4,388</u>

Note: There are no unfulfilled conditions or contingencies related to the above government grants or VAT refunds.

6. OTHER LOSSES, NET

	Six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Losses on financial assets at fair value through profit or loss (<i>Note 18</i>)	(35,522)	(31,887)
Provisional fair value change on contingent consideration payable for acquisition of a subsidiary (<i>Note 24</i>)	(6,709)	—
Gains/(losses) on disposal of property, plant and equipment	1	(470)
Foreign exchange gains/(losses), net	4,694	(791)
Others	2	147
	<u>(37,534)</u>	<u>(33,001)</u>

7. EXPENSES BY NATURE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Payroll and employee benefit expense	57,809	36,870
Share-based compensation (<i>Note 21</i>)	4,983	24,367
Professional and consulting fees	9,211	13,754
Outsourced technical services	19,045	10,710
Promotion and advertising expenses	21,038	5,828
Utilities and office expenses	2,370	2,789
Depreciation of property, plant and equipment (<i>Note 12</i>)	1,464	1,737
Depreciation of right-of-use assets (<i>Note 13</i>)	3,356	2,732
Amortization of intangible assets (<i>Note 14</i>)	34,421	960
Net impairment losses on financial assets	—*	1,641
Travelling and entertainment expenses	2,153	1,066
Tax and levies	2,621	397
Others	6,356	3,189
	<u>164,827</u>	<u>106,040</u>

* During the six months ended 30 June 2020, the Group recognized net reversal of impairment losses on financial assets amounting to RMB14,225,000 and such amount is not included in this note.

8. FINANCE COSTS, NET

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Finance income		
Others	462	309
	<u>462</u>	<u>309</u>
Finance costs		
Interest expenses on bank borrowings	(1,289)	(1,264)
Others	(489)	(186)
	<u>(1,778)</u>	<u>(1,450)</u>
Finance costs, net	<u>(1,316)</u>	<u>(1,141)</u>

9. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2020 and 2019 is analyzed as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	6,894	(6,270)
Deferred income tax	(21,263)	(450)
	(14,369)	(6,720)

Corporate Income Tax

Taxation has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries/regions in which the Group operates.

Income tax expense is recognized based on management's best estimation of the annual income tax rate applicable to the respective group entities expected for the full financial year. The estimated income tax rates applicable to the group entities (excluding the entities that are currently tax exempted) for the year ending 31 December 2020 vary from 15% to 25% (2019: 15% to 25%).

PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

10. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares during the period.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company	32,379	(25,590)
Weighted average number of ordinary shares in issue (in thousands)	2,440,568	2,487,748
Earnings/(losses) per share for profit attributable to equity holders of the Company	0.013	(0.010)

Note:

Diluted earnings/(losses) per share is the same as the basic earnings/(losses) per share as those contingently vesting shares in relation to RSUs are not included in the computation of diluted earnings/(losses) per share for the six months ended 30 June 2020 and 2019 since the non-market performance conditions of the RSUs were not satisfied as at the end of the reporting periods, and the impact of dilution of the RSUs was anti-dilutive during the six months ended 30 June 2020 and 2019.

11. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2020 (2019: Nil). The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Servers and other equipment <i>RMB'000</i>	Furniture & leasehold improvements <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2020						
(Unaudited)						
At beginning of the period	13,834	1,439	2,106	251	—	17,630
Additions	—	262	1,250	332	—	1,844
Disposal	—	(1)	—	—	—	(1)
Depreciation charge (<i>Note 7</i>)	(244)	(248)	(942)	(30)	—	(1,464)
At end of the period	<u>13,590</u>	<u>1,452</u>	<u>2,414</u>	<u>553</u>	<u>—</u>	<u>18,009</u>
Six months ended 30 June 2019						
(Unaudited)						
At beginning of the period	12,237	2,038	1,804	1,077	1,529	18,685
Additions	—	32	—	—	509	541
Disposal	—	(859)	(81)	(536)	—	(1,476)
Depreciation charge (<i>Note 7</i>)	(209)	(174)	(1,092)	(262)	—	(1,737)
At end of the period	<u>12,028</u>	<u>1,037</u>	<u>631</u>	<u>279</u>	<u>2,038</u>	<u>16,013</u>

13. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Rented office premises RMB'000	Total RMB'000
Six months ended 30 June 2020			
(Unaudited)			
At beginning of the period	70,489	12,598	83,087
Additions	—	265	265
Depreciation charge (Note 7)	(642)	(2,714)	(3,356)
At end of the period	<u>69,847</u>	<u>10,149</u>	<u>79,996</u>
Six months ended 30 June 2019			
(Unaudited)			
At beginning of the period (upon the application of IFRS 16)	71,773	11,784	83,557
Depreciation charge (Note 7)	(642)	(2,090)	(2,732)
At end of the period	<u>71,131</u>	<u>9,694</u>	<u>80,825</u>

14. INTANGIBLE ASSETS

	Goodwill RMB'000	Game copyrights and intellectual property license contracts RMB'000	Computer software licenses RMB'000	Domain name RMB'000	Total RMB'000
Six months ended 30 June 2020					
(Unaudited)					
At beginning of the period	693,065	160,901	393	1,829	856,188
Additions	—	1,500	—	—	1,500
Amortization charge (Note 7)	—	(34,053)	(205)	(163)	(34,421)
At end of the period	<u>693,065</u>	<u>128,348</u>	<u>188</u>	<u>1,666</u>	<u>823,267</u>
Six months ended 30 June 2019					
(Unaudited)					
At beginning of the period	26,031	—	1,398	2,154	29,583
Additions	—	—	—	—	—
Amortization charge (Note 7)	—	—	(797)	(163)	(960)
At end of the period	<u>26,031</u>	<u>—</u>	<u>601</u>	<u>1,991</u>	<u>28,623</u>

Impairment tests for goodwill

Goodwill acquired in a business combination is allocated to the cash-generating units (“CGU(s)”) that are expected to benefit from that business combination. The management considers groups of subsidiaries operating in specific locations (the “Sub-group”), i.e. Shenzhen and Shanghai, the PRC, represents separate CGUs for the purpose of goodwill impairment testing. The CGUs are principally engaged in the development and distribution of web games and mobile games in the PRC. At the end of the reporting period, the carrying amount of goodwill allocated to these Sub-groups are as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Shanghai Sub-group	667,034	667,034
Shenzhen Sub-group	26,031	26,031
	<u>693,065</u>	<u>693,065</u>

The goodwill amounted to RMB667,034,000 was resulted from the acquisition of Osmanthus Vale Holdings Limited (“**Osmanthus Vale**”) and was attributable to the CGU consisting of the Sub-group of which the operation is mainly based in Shanghai, the PRC.

The goodwill amounted to RMB26,031,000 was resulted from the acquisition of Shenzhen Qianqi Network Technology Co., Ltd. and was attributable to the CGU consisting of the Sub-group of which the operation is mainly based in Shenzhen, the PRC.

The Group determines whether goodwill is impaired at least on an annual basis. The latest impairment test was performed for 31 December 2019. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated, i.e. the Shanghai Sub-group and the Shenzhen Sub-group. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews.

15. INTEREST IN A JOINT VENTURE

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At beginning of the period	3,216	—
Share of losses and other comprehensive expense	(1,781)	—
At end of the period	<u>1,435</u>	<u>—</u>

16. TRADE RECEIVABLES

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Trade receivables	273,135	253,977
Less: provision for impairment	<u>(19,990)</u>	<u>(24,304)</u>
Trade receivables, net	<u>253,145</u>	<u>229,673</u>

The Group allows a credit period of 60–120 days to its customers. An ageing analysis of trade receivables based on invoice date is as follows:

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Up to 3 months	162,714	130,020
3 to 6 months	26,424	61,883
6 months to 1 year	56,228	39,841
1 to 2 years	21,398	19,246
Over 2 years	<u>6,371</u>	<u>2,987</u>
	<u>273,135</u>	<u>253,977</u>

17. PREPAYMENT AND OTHER RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Included in non-current assets		
Rented deposits	1,187	1,140
Prepayment for technology services	2,358	2,358
Advance granted to third parties	4,616	4,394
Prepayment for investment (<i>note a</i>)	130,000	80,000
Deposit paid for acquisition of intangible assets	124,906	28,302
Less: provision for impairment	(2,358)	(3,135)
	<u>260,709</u>	<u>113,059</u>
Included in current assets		
Housing loans to employee	1,817	1,601
Advance granted to third parties	3,079	3,022
Advance to a related party	2,795	2,747
Recoverable value-added tax	18,679	9,511
Prepayment to game developers	10,917	22,837
Prepayment for technology services	32,017	24,429
Receivable from refund for undelivered technology services	2,000	3,000
Receivable from mobile game cooperation contract (<i>note b</i>)	—	104,477
Receivable from refund for terminated mobile game contract (<i>note c</i>)	—	106,387
Prepayment for copyright loyalty	705	681
Prepayment for advertisement and marketing	23,299	38,642
Prepayment for advisory services	76	523
Receivable from disposal of investments (<i>note d</i>)	20,299	113,439
Prepayment for investments	6,810	66,810
Others	10,688	9,140
Less: provision for impairment	(55,629)	(64,763)
	<u>77,552</u>	<u>442,483</u>

Notes:

- (a) In December 2019, January and March 2020, the Group, as the potential investor, entered into a Letter of Intent, a framework agreement and a supplementary framework agreement, respectively, with a state-owned enterprise group in Shanghai (an independent third party to the Group), the state-owned enterprise group and the local government for the proposed acquisition of the equity interest in an information technology company (“**Target Company A**”), with a refundable amount of RMB80,000,000 and RMB50,000,000 paid to the designated recipient of the state-owned enterprise group in December 2019 and March 2020. The Group intended to exert its own advantage in the industry, perform businesses coordination and integrate industry resources, and further facilitates the game business development of the Group through the construction and operation of game cloud, clouding storage, big data, in order to be well arranged in the cloud gaming business and game cloud business. Up to the date when the Interim Condensed Consolidated Financial Information was authorized for issue, the above RMB130,000,000 has been fully repaid, and the Sub-group of the Group has acquired 2% equity interest of Target Company A through the equity transfer agreement.
- (b) On 31 January 2019, the Group entered into a cooperation contract with an independent third-party mobile game publisher (“**Publisher**”), enabling the Group to participate in the advertising and promotion activities of a mobile game. Pursuant to the contract, the Group agreed to cooperate in the advertising and promotion of the mobile game in certain overseas markets to the extent of HK\$100,000,000 (equivalent to approximately RMB88,843,000) (“**Cooperation Amount**”). The Cooperation Amount and related revenue totaling approximately RMB104,477,000 has been fully received during the period ended 30 June 2020.
- (c) The Group entered into a mobile game distribution agreement with an independent third-party on 12 January 2019. The Group has paid USD25,000,000 and the agreement was terminated on 26 June 2019. According to the termination agreement and the subsequent supplemental agreement, this independent third-party should refund a total amount of USD26,500,000 (including a compensation income of USD1,500,000) to the Group. During the period ended 30 June 2020, a total amount of USD26,500,000 (including a compensation income of USD1,500,000) has been fully received.
- (d) On 12 June 2018, the Group entered into a series of agreements with a third-party regarding the disposal of certain equity investments of the Group at aggregate cash considerations of RMB27,149,000. However, the considerations to the extent of RMB20,299,000 was past due as at 31 December 2018 due to the financial difficulty of the counterparty and accordingly, a full impairment of the remaining balance amounted to RMB20,299,000 was provided for as credit-impaired loss. The Directors of the Company believed that such amount is still unrecoverable as at 31 December 2019 and 30 June 2020.

On 10 October 2019, the Group entered into a share transfer agreement with an investment management (limited partnership), an independent third-party, to transfer the Group’s investment in Ningbo Jiujiu Investment Partnership Enterprise (Limited Partnership). The transfer amount and related interest income totaling RMB95,875,068 was fully received during the period ended 30 June 2020.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Current		
Listed shares in Hong Kong	<u>85,106</u>	<u>111,469</u>
Non-current		
Listed shares in the PRC	867	867
Unlisted investments in the PRC	<u>1,490</u>	<u>1,490</u>
	<u>2,357</u>	<u>2,357</u>
	<u>87,463</u>	<u>113,826</u>

Movements in financial assets at fair value through profit or loss during the six months ended 30 June 2020 and 2019 are as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At beginning of the period	113,826	308,079
Addition	15,435	207,325
Disposal	(6,276)	(145,842)
Realized and unrealized losses (<i>Note 6</i>)	<u>(35,522)</u>	<u>(31,887)</u>
At end of period	<u>87,463</u>	<u>337,675</u>

19. SHARE CAPITAL

	Unaudited			
	Six months ended 30 June			
	Number of shares		Share capital	
	2020 (thousands)	2019 (thousands)	2020 RMB'000	2019 RMB'000
As at 1 January and 30 June	<u>2,619,500</u>	<u>2,666,680</u>	<u>86</u>	<u>88</u>

20. OTHER RESERVES

	Shares held for RSU Scheme RMB'000 (Unaudited)	Statutory surplus reserve RMB'000 (Unaudited)	Shareholder contribution RMB'000 (Unaudited)	Capital redemption reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Share-based compensations RMB'000 (Unaudited)	Currency translation differences RMB'000 (Unaudited)	Financial assets at fair value through other comprehensive income RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 1 January 2020	(273,592)	5,000	273,592	2	(3,032,350)	18,545	34,675	(3,206)	(2,977,334)
Share-based compensations (Note 21)									
— value of employee services	—	—	—	—	—	4,983	—	—	4,983
Currency translation differences	—	—	—	—	—	—	(12,080)	—	(12,080)
As at 30 June 2020	<u>(273,592)</u>	<u>5,000</u>	<u>273,592</u>	<u>2</u>	<u>(3,032,350)</u>	<u>23,528</u>	<u>22,595</u>	<u>(3,206)</u>	<u>(2,984,431)</u>
	Shares held for RSU Scheme RMB'000 (Unaudited)	Statutory surplus reserve RMB'000 (Unaudited)	Shareholder contribution RMB'000 (Unaudited)	Capital redemption reserve RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Share- based compensations RMB'000 (Unaudited)	Currency translation differences RMB'000 (Unaudited)	Financial assets at fair value through other comprehensive income RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 1 January 2019	(273,592)	5,000	273,592	—	(3,032,350)	35,632	21,613	879	(2,969,226)
Share-based compensations (Note 21)									
— value of employee services	—	—	—	—	—	24,367	—	—	24,367
— vested and settled	—	—	—	—	—	(27,731)	—	—	(27,731)
Fair value changes on financial asset at fair value through other comprehensive income	—	—	—	—	—	—	—	(1,031)	(1,031)
Currency translation differences	—	—	—	—	—	—	1,100	—	1,100
As at 30 June 2019	<u>(273,592)</u>	<u>5,000</u>	<u>273,592</u>	<u>—</u>	<u>(3,032,350)</u>	<u>32,268</u>	<u>22,713</u>	<u>(152)</u>	<u>(2,972,521)</u>

21. EQUITY-SETTLED SHARE-BASED COMPENSATION

On 6 March 2018, to incentivize Directors, senior management and employees, a Restricted Share Units Scheme (“**RSU Scheme**”) was approved and adopted by the Company. 7Road Elite Holdings Limited (“**ESOP 1**”) and 7Road Talent Holdings Limited (“**ESOP 2**”) were incorporated to hold 8,946,600 ordinary shares of the Company (in equivalent to 178,932,000 ordinary shares upon the completion of the Share Subdivision and Global Offering), which was contributed by a former shareholder. ESOP 1 and ESOP 2 were consolidated by the Company as to the Company is able to execute power over the control and management over ESOP 1 and ESOP 2. These shares are considered treasury shares held for the RSU Scheme indirectly by the Company.

On 31 March 2018, in exchange for employee services to the Group, RSUs in equivalent to 100,800,000 ordinary shares were granted to certain eligible persons selected by the Board of Directors. Under the terms of the grant letter, the RSUs shall be vested as to 30%, 30% and 40% on 31 March 2019, 31 March 2020 and 31 March 2021, respectively, of which certain designated grantees also required to fulfill certain service conditions.

As the Group received the benefits associated with the services of the eligible persons, the fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by the fair value of the restricted shares granted less the subscription cost, if any, taking into consideration of forfeiture rate, and amortized over the different vesting periods of each grant with a credit recognized in equity as the equity-settled share-based compensation reserve.

As a private company with no quoted market price of the Company’s equity instruments at the date of grant, the Company needs to estimate the fair value of its equity interest at the grant date. The discounted cash flow method under the income approach has been applied in the determination of the fair value of the equity interest of the Company. The discounted cash flow derived by management considered the Group’s future business plan, specific business and financial risks, the stage of development of the Group’s operations and economic and competitive elements affecting the Group’s business, industry and market. As at 31 March 2018, the fair value of each RSU was valued at RMB27.6 million.

Movement of the RSU Scheme for the six months ended 30 June 2020 and 2019 is as follows:

	Number of underlying Shares represented by the RSUs (Unaudited)
As at 1 January 2019	88,825,000
Forfeited	(18,275,000)
Vested and settled (<i>note</i>)	<u>(21,637,500)</u>
As at 30 June 2019	<u><u>48,912,500</u></u>
As at 1 January 2020	19,547,500
Forfeited/Lapsed	<u>(11,127,500)</u>
As at 30 June 2020	<u><u>8,420,000</u></u>

Note:

On 31 March 2019, RSUs representing 21,637,500 underlying Shares were vested, representing the first 30% of the underlying Shares represented by the RSUs. On the same day, the Company agreed an amendment to the grant letter with all participants in the RSU scheme (“**Amendment**”). According to the Amendment, (i) the Group and the participants in the RSU scheme mutually agreed a cash settlement of the vested RSUs at HKD1.50 per underlying Shares, totaling RMB27,731,000, and (ii) certain performance conditions for the vesting of the remaining 2nd 30% and 3rd 40% was added (“**Additional Vesting Condition**”).

The exceed of the consideration over the fair value of RSUs purchased of RMB924,000, representing additional benefit provided to the employee and was recognized as an expense during the six months ended 30 June 2019.

The Additional Vesting Condition would not indicate any additional benefit providing to the employee, as a result the accounting treatment of the RSUs will be accounted for as if no inclusion of such Additional Vesting Condition.

22. BORROWINGS

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Secured bank borrowings		
— RMB loan (<i>note a</i>)	51,490	41,434
— Hong Kong Dollar (“ HK\$ ”) loan (<i>note b</i>)	3,060	2,920
	<u>54,550</u>	<u>44,354</u>

Notes:

- (a) In September 2016, the Group received a loan from a bank of RMB61,600,000 at an interest rate of Shanghai Interbank Offered Rate basic loan rate plus 1.09% per annum. The borrowing was secured by certain property, plant and equipment and right of use assets of the Group.
- (b) In 2019, the Group was provided with a margin financing facility amount of HK\$3,000,000. The borrowing was secured by certain listed securities included in financial assets at fair value through profit or loss of the Group.

At 30 June 2020 and 31 December 2019, the Group’s borrowings were repayable as follows:

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Within 1 year	22,323	9,058
1–2 years	6,138	6,138
2–5 years	18,415	18,415
Over 5 years	7,674	10,743
	<u>54,550</u>	<u>44,354</u>

At 30 June 2020 and 31 December 2019, the carrying amounts of the Group’s borrowings approximate to their fair values. The fair values of non-current borrowings are determined based on discounted cash flows using a current borrowing rate.

23. CONTRACT LIABILITIES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Advance from customers	45,827	44,556
Game copyrights	88	418
Game revenue derived from game players	8,959	16,936
	<u>54,874</u>	<u>61,910</u>

Contract liabilities primarily represented the unamortized revenue derived from sale of virtual items in the Group's online game services and advance payments from third party publishers, which the Group continued to have obligations as at the reporting date.

24. TRADE AND OTHER PAYABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Included in non-current liabilities		
Contingent consideration payable for acquisition of a subsidiary (note)	90,428	273,750
Included in current liabilities		
Trade payables	23,444	34,936
Payroll liabilities	15,914	36,124
Other tax payables	13,469	15,576
Dividend payables	1	1
Government grants	1,936	1,935
Accrued expenses	6,273	8,811
Listing expense	8,548	8,543
Contingent consideration payable for acquisition of a subsidiary (note)	237,707	223,959
Others	26,918	2,574
	<u>334,210</u>	<u>332,459</u>

The ageing analysis of trade payables based on invoice date is as follows:

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
0–30 days	2,850	13,211
31–60 days	396	6,449
61–90 days	517	16
91–180 days	2,576	476
181–365 days	3,458	1,279
Over 1 year	13,647	13,505
	<hr/> 23,444 <hr/>	<hr/> 34,936 <hr/>

Notes:

The amount represents provisional fair value of contingent consideration payable arising from the acquisition of Osmanthus Vale during the year ended 31 December 2019. Pursuant to the sale and purchase agreement dated 23 August 2019, the contingent consideration payable is subject to adjustment mechanism in respect of “Profit Compensation”, “Goodwill Impairment Compensation” and “Additional Consideration” (collectively referred to as the “Adjustment Mechanism”). Details of the Adjustment Mechanism have been disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2019.

Depending on the result of Adjustment Mechanism, included in the provisional fair value of contingent consideration payable of RMB328,135,000, RMB237,707,000 is payable within twelve months from the end of reporting period and is included in current liabilities. The remaining amount of RMB90,428,000 is payable after more than twelve months from the end of the reporting period and is included in non-current liabilities.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company for the six months ended 30 June 2020.

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2020.

COMPLIANCE WITH CG CODE

The Company has complied with all the applicable code provisions of the CG Code for the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors.

Having made specific enquiry to all Directors, they have all confirmed that they have complied with the Model Code and the code of conduct of the Company regarding securities transactions by Directors throughout the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying. Mr. Xue Jun is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited Interim Results of the Group for the six months ended 30 June 2020.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2020 INTERIM REPORT

This Interim Results announcement was published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and on the website of the Company (www.7road.com). The interim report of the Group for the six months ended 30 June 2020 will be despatched to Shareholders and available on the above websites in due course.

DEFINITIONS

“ARPPU”	the total revenue generated by the paying users for a particular game, a particular type of games or all of our games, as applicable, during a certain period divided by the number of paying users of such game, such type of games or all of our games, as applicable, during such period
“Audit Committee”	the audit committee of the Board
“average MPUs”	the average number of paying users in the relevant calendar month; average MPUs for a particular period is the average of the MPUs in each month during that period
“Board”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“China” or “PRC”	for purpose of this announcement only, the People’s Republic of China, unless otherwise stated, excludes Hong Kong, the Macau Special Administrative Region and Taiwan herein
“Company” or “our Company”	7Road Holdings Limited (第七大道控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on 6 September 2017 and the Shares of which are listed on the Main Board of the Stock Exchange on 18 July 2018 (Stock Code: 797)
“Director(s)”	the director(s) of the Company

“Global Offering”	the public offering of 66,668,000 Shares for subscription by the public in Hong Kong and the international offering (as defined respectively in the Prospectus) of 600,012,000 Shares for subscription by the institutional, professional, corporate and other investors
“Group”, “we” or “us”	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of the contractual arrangements entered into on 13 April 2018, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRSs”	the International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“MAUs”	monthly active users, refers to the number of people logged in to specific game(s) in the relevant calendar month; average MAUs for a particular period is the average of the MAUs in each month during that period
“mobile game(s)”	game(s) that is/are played on mobile devices
“Model Code”	the Model Code of Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
“MPUs”	monthly paying users, refers to the number of paying users in the relevant calendar month
“online game(s)”	video game(s) that is/are played over some form of computer or mobile network

“paying users”	in any given period, (i) paying users of a particular game refers to all registered users who charged their accounts for the game with virtual items purchased from us at least once in such period regardless of whether such virtual items were consumed by the registered users in such period; and (ii) paying users of a particular type or all of our game refers to the simple sum of the paying users of each game of such type or all of our games, as applicable, in such period and paying users that purchased virtual items for two or more games in such period is counted as two or more paying users in such period
“Prospectus”	the prospectus issued by the Company dated 29 June 2018
“Reporting Period”	the six months ended 30 June 2020
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“RSU Scheme”	the restricted share unit scheme adopted by our Company on 6 March 2018
“RSU(s)”	restricted share units granted pursuant to the RSU Scheme
“senior management”	the senior management of the Company
“Share(s)”	ordinary share(s) of US\$0.000005 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“web game(s)”	game(s) that is/are played in a web browser on personal computer without downloading any client base or application

“Xinla Group”

Shanghai Xinla Network Technology Co., Ltd.* (上海辛辣網絡
科技有限公司) and its subsidiaries

“%”

per cent

By order of the Board
7Road Holdings Limited
Meng Shuqi
Chairman

Wuxi, the PRC
31 August 2020

As at the date of this announcement, the executive Directors are Mr. Meng Shuqi, Mr. Li Zhengquan and Mr. Yang Cheng; and the independent non-executive Directors are Mr. Xue Jun, Ms. Li Yiqing and Ms. Wang Ying.

* *For identification purpose only*