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Jiu Zun Digital Interactive Entertainment Group Holdings Limited

九尊數字互娛集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1961)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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 consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**” or “**we**” or “**us**” or “**our**”) for the year ended 31 December 2020. The annual results have been reviewed by the Company’s Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Year ended 31 December		
	2020	2019	
	(RMB’000)	(RMB’000)	Change
			%
Revenue	170,179	219,194	–22.4
Gross profit	55,638	79,572	–30.1
Profit for the year	1,023	41,208	–97.5
Add:			
Listing expenses	13,021	9,050	43.9
Adjusted profit for the year ⁽¹⁾	14,044	50,258	–72.1

Note:

- (1) “Adjusted profit” is not defined under the Hong Kong Financial Reporting Standards (“**HKFRS**”). It is defined by the Group as net profit excluding the listing expenses. The Directors believe that they are useful supplements to the consolidated statement of profit or loss. The adjusted profit reflects another perspective to the profitability of the Group’s operations after excluding the listing expenses.

DIVIDENDS

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: HK2.52 cents per share in cash) in consideration of the unstable economy and rapid changing market. The Board tend to increase Company's reserve under the current circumstance, thus the final dividend for the year ended 31 December 2020 will not meet our target dividend payment ratio of not less than 30% of our distributable profits for the corresponding financial year as disclosed in the prospectus of the Company dated 27 February 2020 (the “**Prospectus**”).

REVIEW OF OPERATION

Jiu Zun Digital Interactive Entertainment Group Holdings Limited is a digital entertainment content provider in the PRC with a diversified content portfolio comprising (i) mobile games mainly played on android operating system; (ii) e-magazines; and (iii) other digital media content such as comics and music. We commenced our digital media content distribution business in 2011, and expanded our product offerings to mobile games in 2014 when we first began to develop and/or operate a wide range of casual mobile games. Apart from casual mobile games which we focused primarily before 2017, we also commenced development and operation of boutique mobile games since 2017 and launched our first multi-player mobile game in January 2019. Since 2018, we have also cooperated with corporate customers who make use of the in-game airtime provided by us for placing their media content for advertising purpose. For the year ended 31 December 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 RMB49.0 million or 22.4% from approximately RMB219.2 million for the year ended 31 December 2019 to approximately RMB170.2 million for the year ended 31 December 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 RMB36.8 million and the decrease in revenue from digital media content distribution business of approximately RMB10.1 million. The gross profit also decreased by approximately RMB24.0 million or 30.1% from approximately RMB79.6 million for the year ended 31 December 2019 to approximately RMB55.6 million for the year ended 31 December 2020 which was principally due to the substantial decline of approximately 83.3% in revenue attributable to the single-player mobile games in the year ended 2020 (“**FY2020**”) as compared to the same period of the year ended 2019 (“**FY2019**”), 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 FY2020; and (ii) an unexpected increase in level of competition intensity 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 103.8% as compared to the revenue of the same business line of approximately RMB64.8 million for the year ended 31 December 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 year decreased by approximately RMB40.2 million or 97.5% from approximately RMB41.2 million for the year ended 31 December 2019 to approximately RMB1.0 million for the year ended 31 December 2020. The decrease was primarily due to (i) the decrease in the gross profit generated from mobile games of approximately RMB18.4 million and gross profit generated from the digital media content distribution of approximately RMB5.4 million; (ii) the increase in the administrative expenses of approximately RMB10.6 million; (iii) the increase in the research and development expenses of approximately RMB6.1 million and (iv) the increase in the listing expenses of approximately RMB4.0 million which were net off by the decrease in the income tax expense of approximately RMB9.5 million. Excluding the listing expenses, the adjusted profit for the year decreased by approximately RMB36.3 million or 72.1% from approximately RMB50.3 million for the year ended 31 December 2019 to approximately RMB14.0 million for the year ended 31 December 2020. The net profit margin decreased from approximately 18.8% for the year ended 31 December 2019 to approximately 0.6% for the year ended 31 December 2020.

OUTLOOK

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. 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, since the second half of 2020, the onset of waves of the pandemic has once again cast a shadow over the prospects of the global economy and enhanced the market competition intensity in FY2020.

Looking forward to future, the internal and external situations will remain complicated and tough. Adopting the long-term perspective, the Group will actively seek opportunities for business upgrades and expansions while continuing to increase our investment in research and development, distribution and operation talents of games, building a diversified and innovative product portfolio and strengthening our competitiveness in an environment where the global digitization continues to deepen and the next generation information technology continues to upgrade. By integrating internal and external resources to explore and innovate, the Group will continue to introduce new dynamics into the Group's long-term development.

PROSPECTS

In 2021, 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 unexpected change of player preference from single-player mobile games to multi-player mobile games since the second quarter of the year ended 2020. During 2020, the Company launched eight multi-player mobile games and four single-player mobile games. For 2021, the Company plans to launch two multi-player mobile games and one single-player mobile game. 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 future.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Mobile Game

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

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

	Year ended 31 December		Change %
	2020	2019	
Game			
Number of paying players (<i>in million</i>)	1.9	11.9	-84.0
Average MPUs (<i>in million</i>)	0.2	1.0	-80.0
Average ARPPU (<i>RMB</i>)	86.36	22.89	277.3

- MPUs. The average monthly paying users (“MPUs”) for the game business decreased to approximately 0.2 million for the year ended 31 December 2020 from approximately 1.0 million for the year ended 31 December 2019. The decrease was primarily due to the unexpected change of player preference from single-player mobile games to multi-player mobile games in FY2020. The number of paying players from single player mobile games decreased in FY2020.

- ARPPU. Average revenue per paying user (“ARPPU”) level of game business increased to approximately RMB86.36 for the year ended 31 December 2020 as compared to RMB22.89 for the year ended 31 December 2019. The increase was primarily attributable to the fact that larger proportion of revenue from mobile game is generated by multi-player mobile game for the year ended 31 December 2020, which offered virtual items at a relatively high unit purchase price.

The following table sets forth the Group’s consolidated statement of profit or loss for the year ended 31 December 2020 as compared to the year ended 31 December 2019:

	Year ended 31 December		
	2020	2019	Change
	RMB’000	RMB’000	%
Revenue	170,179	219,194	–22.4
Cost of sales	(114,541)	(139,622)	–18.0
Gross profit	55,638	79,572	–30.1
Other income and gains, net	4,497	2,409	86.7
Selling and distribution expenses	(1,258)	(861)	46.1
Administrative expenses	(18,650)	(8,067)	131.2
Research and development expenses	(14,012)	(7,934)	76.6
Reversal of impairment/(impairment) of trade receivables	(1,045)	706	–248.0
Other expenses	(19,406)	(9,711)	99.8
Finance costs	(150)	(1,039)	–85.6
Share of results of associates	(193)	–	–
Profit before tax	5,421	55,075	–90.2
Income tax expense	(4,398)	(13,867)	–68.3
Profit for the year	1,023	41,208	–97.5

Revenue

Revenue decreased by approximately RMB49.0 million or 22.4% to approximately RMB170.2 million for the year ended 31 December 2020 from approximately RMB219.2 million for the year ended 31 December 2019. The following table sets forth the revenue of the Group by business segment for the years ended 31 December 2019 and 2020:

	Year ended 31 December			
	2020		2019	
	<i>RMB'000</i>	<i>% to total revenue</i>	<i>RMB'000</i>	<i>% to total revenue</i>
<i>Revenue from contracts with customers</i>				
Mobile games				
– Development and operation	152,740	89.7	189,499	86.5
– Information services	108	0.1	2,310	1.0
Digital media content distribution	17,331	10.2	27,385	12.5
Total Revenue from contracts with customers	170,179	100.0	219,194	100.0

- Revenue generated from the Group's mobile games decreased by approximately RMB39.0 million or 20.3% to approximately RMB152.8 million for the year ended 31 December 2020 from approximately RMB191.8 million for the year ended 31 December 2019. Such decrease was primarily due to the substantial decline of approximately 83.3% in revenue attributable to the single-player mobile games in FY2020 as compared to the same period of FY2019, which was principally due to the unexpected impacts against the Group in 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 FY2020; and (ii) an unexpected increase in level of competition intensity during 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 103.8% as compared to the revenue of the same business line of approximately RMB64.8 million for year ended 31 December 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 RMB10.1 million or 36.7% to approximately RMB17.3 million for the year ended 31 December 2020 from approximately RMB27.4 million for the year ended 31 December 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 year ended 31 December 2020.

Cost of sales

Cost of sales decreased by approximately RMB25.1 million or 18.0% to approximately RMB114.5 million for the year ended 31 December 2020 from approximately RMB139.6 million for the year ended 31 December 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 year ended 2020, the percentage of cost of sales to total revenue increased to approximately 67.3% (for the year ended 31 December 2019: approximately 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 RMB0.4 million or 46.1% to approximately RMB1.3 million for the year ended 31 December 2020 from approximately RMB0.9 million for the year ended 31 December 2019. The increase was mainly due to increase in staff cost and welfare for the year ended 31 December 2020.

Administrative expenses

Administrative expenses increased by approximately RMB10.6 million or 131.2% to approximately RMB18.7 million for the year ended 31 December 2020 from approximately RMB8.1 million for the year ended 31 December 2019. The increase in administrative expenses was mainly attributable to the increase in the post-listing expenses of approximately RMB5.6 million and the increase in the staff cost and welfare of approximately RMB1.5 million for the year ended 31 December 2020.

Research and development expenses

Research and development expenses increased by approximately RMB6.1 million or 76.6% to approximately RMB14.0 million for the year ended 31 December 2020 from approximately RMB7.9 million for the year ended 31 December 2019. The increase was primarily due to the fact that the Company increased investment on the development of multi-player mobile games in FY2020.

Other income and gains, net

Other income and gains, net increased to approximately RMB4.5 million for the year ended 31 December 2020 from approximately RMB2.4 million for the year ended 31 December 2019, which was mainly attributable to the gain on write-back of an other payable of approximately RMB1.2 million and the increase in the government grants of approximately RMB1.0 million.

Reversal of impairment/(impairment) of trade receivables

Impairment of trade receivables was approximately RMB1.0 million for the year ended 31 December 2020, as compared to reversal of impairment of trade receivables of approximately RMB0.7 million for the year ended 31 December 2019.

Other expenses

Other expenses for the year ended 31 December 2020 was RMB19.4 million, as compared to other expenses of RMB9.7 million for the year ended 31 December 2019. The increase was mainly due to the increase in listing expenses for the year ended 31 December 2020.

Finance costs

Finance costs for the year ended 31 December 2020 was approximately RMB0.2 million (2019: approximately RMB1.0 million), which was primarily in relation to the issuance of pre-IPO convertible bonds during the year ended 2018.

Income tax expense

The Group recognised income tax expense of approximately RMB4.4 million for the year ended 31 December 2020 while the income tax expense was approximately RMB13.9 million for the year ended 31 December 2019. The effective tax rate increased from approximately 25.2% for the year ended 31 December 2019 to 81.1% for the year ended 31 December 2020 mainly due to (i) the increase in listing expenses of approximately RMB4.0 million for the year ended 31 December 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 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 approximately 19.6% for the year ended 31 December 2020.

Profit for the year

The profit for the year ended 31 December 2020 was approximately RMB1.0 million, as compared to the profit of approximately RMB41.2 million for the year ended 31 December 2019. The net profit margin decreased from approximately 18.8% for the year ended 31 December 2019 to approximately 0.6% for the year ended 31 December 2020 mainly due to (i) increase in listing expenses of approximately RMB4.0 million for the year ended 31 December 2020; (ii) increase in administrative expenses of approximately RMB10.6 million; (iii) increase in research and development expenses of approximately RMB6.1 million for the year ended 31 December 2020; and (iv) decrease in gross profit margin as discussed above.

Adjusted profit for the year

Excluding the listing expenses, the adjusted profit for the year ended 31 December 2020 was approximately RMB14.0 million, which decreased by approximately RMB36.3 million or 72.1% as compared to the adjusted profit of approximately RMB50.3 million for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	<u>47,156</u>	<u>50,899</u>

The Group's total cash and cash equivalent amounted to approximately RMB47.2 million as at 31 December 2020, as compared to approximately RMB50.9 million as at 31 December 2019. The cash and cash equivalents remain relatively stable.

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

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

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for material investments or additions of capital assets during the year ended 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant unrecorded contingent liabilities.

HUMAN RESOURCES

As at 31 December 2020, the Group had a total of 51 employees, the majority of whom are based in Guangzhou. Total staff costs were approximately RMB11.6 million for the year ended 31 December 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

The Group did not have any significant events after 31 December 2020 and up to the date of this announcement.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2020	2019
	Notes	RMB'000	RMB'000
Revenue	4	170,179	219,194
Cost of sales		(114,541)	(139,622)
Gross profit		55,638	79,572
Other income and gains, net	4	4,497	2,409
Selling and distribution expenses		(1,258)	(861)
Administrative expenses		(18,650)	(8,067)
Research and development expenses		(14,012)	(7,934)
Reversal of impairment/(impairment) of trade receivables		(1,045)	706
Other expenses		(19,406)	(9,711)
Finance costs		(150)	(1,039)
Share of results of associates		(193)	–
Profit before tax	5	5,421	55,075
Income tax expense	6	(4,398)	(13,867)
Profit for the year		1,023	41,208
Attributable to:			
Owners of the parent		(1,321)	37,244
Non-controlling interests		2,344	3,964
		1,023	41,208
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic	8	RMB(0.3) cents	RMB9.5 cents
Diluted		RMB(0.3) cents	RMB9.0 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	1,023	41,208
Other comprehensive loss		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(7,142)</u>	<u>(171)</u>
Total comprehensive income/(loss) for the year	<u>(6,119)</u>	<u>41,037</u>
Attributable to:		
Owners of the parent	(8,463)	37,073
Non-controlling interests	<u>2,344</u>	<u>3,964</u>
	<u>(6,119)</u>	<u>41,037</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2020	2019
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		469	536
Interests in associates		22,207	–
Equity investments designated at fair value through other comprehensive income		3,600	–
Prepayments and deposit		47,886	5,660
Total non-current assets		74,162	6,196
Current assets			
Trade receivables	9	57,948	66,733
Prepayments, deposits and other receivables		62,231	54,111
Financial asset at fair value through profit or loss		13,672	–
Due from shareholders		–	13,613
Cash and cash equivalents		47,156	50,899
Total current assets		181,007	185,356
Current liabilities			
Trade payables	10	5,013	16,032
Contract liabilities		4,954	4,304
Other payables and accruals		13,952	16,731
Convertible bonds		–	16,578
Tax payable		2,824	11,122
Total current liabilities		26,743	64,767
Net current assets		154,264	120,589
Total assets less current liabilities		228,426	126,785
Non-current liabilities			
Deferred tax liabilities		2,164	1,389
Net assets		226,262	125,396

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	4,946	1
Equity component of convertible bonds	–	1,128
Reserves	210,249	114,519
	215,195	115,648
Non-controlling interests	11,067	9,748
Total equity	226,262	125,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE AND GROUP INFORMATION

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

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

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial asset at fair value through profit or loss. They are presented in RMB and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Basis for consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19 Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

Conceptual Framework for Financial Reporting 2018 (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

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 issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark within an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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.

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s office premises have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. The amendment did not have material impact on the financial position and performance of the Group.

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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3 OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

(b) Non-current assets

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

Information about major customers

No revenues from the Group's transactions with a single customer amounted to 10% or more of the Group's revenues for the years ended 31 December 2020 and 2019.

4 REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
<i>Revenue from contracts with customers</i>		
Mobile games		
– Development and operation	152,740	189,499
– Information services	108	2,310
Digital media content distribution	17,331	27,385
Total revenue from contracts with customers	170,179	219,194
Timing of revenue recognition		
Point in time (note (a))	38,213	154,440
Over time (note (b))	131,966	64,754
Total revenue from contracts with customers	170,179	219,194

Notes:

- (a) Including revenue from single player mobile games. Since they are downloaded and are fully functional once installed on each individual mobile device, the Group does not have the obligation for game operation and maintenance once the game is downloaded and neither has the access to the game data of each mobile device. Revenue is recognized upon the purchase of in-game items and premium features by players and all other criteria for revenue recognition are met.
- (b) Including revenue from multi-player games. Since the Group has an implied obligation to provide the service which enables the virtual items to be consumed. Revenue is recognized ratably over the estimated average playing period of paying players, starting from the time when virtual items are delivered to the player's accounts and all other revenues recognition criteria are met.

An analysis of other income and gains, net is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other income		
Interest income	905	676
Government grants*	1,262	250
Others	628	583
	<u>2,795</u>	<u>1,509</u>
Gains, net		
Gain on write-back of an other payable	1,155	–
Gain on termination of a lease	52	–
Fair value gain on financial asset at fair value through profit or loss, net	495	–
Gains on disposal of subsidiaries	–	497
Fair value gain on modification of convertible bonds	–	403
	<u>1,702</u>	<u>900</u>
	<u><u>4,497</u></u>	<u><u>2,409</u></u>

- * Various government grants of RMB1,150,000 have been received by certain subsidiaries as these subsidiaries were qualified as High and New Technology Enterprises in the PRC. The remaining mainly represented COVID-19 related subsidies received from local government for employment support and business operations support 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):

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of sales	114,541	139,622
Auditor's remuneration	1,494	500
Depreciation of property, plant and equipment	366	340
Depreciation of right-of-use assets	384	–
Employee benefit expense (including directors' remuneration):		
Wages, salaries, bonuses and allowances	11,154	7,681
Pension scheme contributions	443	938
	<u>11,597</u>	<u>8,619</u>
Impairment/(reversal of impairment) of trade receivables	1,045	(706)
Impairment of deposits [#]	–	661
Loss on disposal of items of property, plant and equipment [#]	4	3
Write-off of items of property, plant and equipment [#]	355	–
Fair value gain on financial asset at fair value through profit or loss, net	(495)	–
Fair value gain on modification of convertible bonds	–	(403)
	<u>–</u>	<u>–</u>

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

6 INCOME TAX EXPENSE

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

- (i) Certain subsidiaries of the Group which qualified as High and New Technology Enterprises in Mainland China, were entitled to a lower PRC corporate income tax rate of 15%; and
- (ii) Certain subsidiaries of the Group applied the Small-Scaled Minimal Profit Enterprise Income Tax Preferential Policy announced by the PRC's State Administration of Taxation.
- (iii) A subsidiary of the Group was qualified as a software enterprise by Guangdong Software Industry Association and was entitled to tax exemption for two years and thereafter to a preferential rate at half of the corporate income tax rate for three years.

	Year Ended 31 December 2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current — Mainland China		
Charge for the year	3,623	12,478
Deferred	775	1,389
	<u>4,398</u>	<u>13,867</u>
Total tax charge for the year	<u>4,398</u>	<u>13,867</u>

7 DIVIDENDS

During the year ended 31 December 2020, a subsidiary of the Group declared dividend of approximately RMB13,613,000 (2019: Nil) to its then shareholders for settlement of amounts due from the then shareholders to the Group before listing.

The 2019 final dividend of HK2.52 cents per ordinary share which amounted to approximately RMB12,362,000 was recognised as distribution during the year ended 31 December 2020.

The board of directors do not recommend the payment of any final dividend for the year ended 31 December 2020.

8 EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share for the year is based on the loss for the year attributable to owners of the parent of RMB1,321,000 (2019: profit of RMB37,244,000), and the weighted average number of ordinary shares of 514,138,142 (2019: 392,560,000) in issue during the year, as if that the reorganisation and the capitalisation issue had been completed on 1 January 2019.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2020 in respect of a dilution as the impact of the convertible bonds had an anti-dilutive effect on the basic loss per share amounts presented.

During the year ended 31 December 2019, the calculation of the diluted earnings per share was based on the profit for the year attributable to owners of the parent, adjusted to reflect the interest on the convertible bonds and fair value gain on modification of convertible bonds.

The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year ended 31 December 2019, 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 diluted earnings per share for the year ended 31 December 2019 were based on:

	2019 RMB'000
Earnings	37,244
Profit attributable to owners of the parent, used in the basic earnings per share calculation:	
Interest on convertible bonds	1,039
Fair value gain on modification of convertible bonds	(403)
	<u>37,880</u>
	Number of shares 2019
Shares	
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	392,560,000
Effect of dilution – weighted average number of ordinary shares: Convertible bonds	<u>27,440,000</u>
	<u>420,000,000</u>

9 TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	61,755	69,495
Impairment	(3,807)	(2,762)
	<u>57,948</u>	<u>66,733</u>

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

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

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	1,929	13,913
31 to 60 days	1,607	7,834
61 to 90 days	1,450	9,236
91 to 180 days	4,242	21,529
181 to 365 days	14,710	12,489
Over 365 days	34,010	1,732
	<u>57,948</u>	<u>66,733</u>

10 TRADE PAYABLES

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

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	359	5,661
1 to 2 months	533	3,751
2 to 3 months	507	2,805
Over 3 months	3,614	3,815
	<u>5,013</u>	<u>16,032</u>

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

OTHER INFORMATION

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

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised by the Company from the Listing are approximately RMB79.2 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). For the year ended 31 December 2020, the IPO proceeds were utilized in accordance with the intended purposes stated in the Prospectus published by the Company, with the balance amounted to approximately RMB12.0 million. The balance of IPO proceeds will continue to be utilized according to the manner and proportions as disclosed in the Prospectus.

Since the Listing Date and up to 31 December 2020, the net proceeds from the Listing had been applied as follows:

	Net amount available as at 17 March 2020 <i>RMB million</i>	Actual net amount utilized for the year ended 31 December 2020 <i>RMB million</i>	Unutilized net amount as at 31 December 2020 <i>RMB million</i>	Expected timeline for utilising the remaining net proceeds <i>(Note)</i>
Expand market share in single-player mobile games	19.2	14.7	4.5	By 31 December 2021
Expedite multi-player mobile game market	12.2	6.0	6.2	By 31 December 2021
Obtain licensing rights of popular entertainment properties	16.1	16.1	–	N/A
Enrich our digital media content	1.0	0.1	0.9	By 31 December 2021
Strategic acquisitions and partnerships with mobile game developers	24.1	24.1	–	By 31 December 2021
Working capital and general corporate use	6.6	6.2	0.4	N/A
Total	<u>79.2</u>	<u>67.2</u>	<u>12.0</u>	

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of future market conditions made by the Group and is consistent with that as described in the Prospectus. It might be subject to changes based on the current and future development of the market conditions.

Audit and Compliance Committee

The audit and compliance committee of the Company has reviewed together with the Board the accounting standards and practices adopted by the Group and the consolidated financial statements of the Company for the year ended 31 December 2020.

Scope of Work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the announcement have been agreed by the Group's auditor, Ernst & Young ("EY"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

Corporate Governance Code

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

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

Save as disclosed below, the Directors consider that the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 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 make and implement decisions promptly and efficiently. Further, the Board considers that a separation of the roles of the chairman and chief executive officer may create unnecessary costs for the daily operations of the Group. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

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

Model Code for Securities Transactions by Directors

The Company has adopted the code of conduct and procedures governing Directors' securities transactions in stringent compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the code of conduct and procedures governing Directors' securities transactions during the year ended 31 December 2020.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2021 annual general meeting. In order to be entitled to attend and vote at the 2021 annual general meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong Time) on Monday, 24 May 2021.

Publication of the Annual Results and 2020 Annual Report

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jiuzundigital.com). The annual report of the Company for the year ended 31 December 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 Executive Director

Hong Kong, 30 March 2021

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.