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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The Board announces the audited consolidated annual results of the Group (the “**Annual Results**”) for the year ended 31 December 2021 together with the comparative information for the year ended 31 December 2020. The Annual Results have been reviewed by the Audit Committee.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	420,543	424,313	333,379	332,384	445,295
Profit/(loss) for the year	97,990	80,001	13,905	(98,031)	257,181
Profit/(loss) for the year attributable to owners of the Company	94,236	81,309	10,791	(98,031)	257,181

1. For the year ended 31 December 2021, the total revenue amounted to approximately RMB420.5 million, representing a decrease of approximately 0.9% as compared with the year ended 31 December 2020.
2. For the year ended 31 December 2021, the Company recorded a profit attributable to owners of the Company amounted to approximately RMB94.2 million, representing an increase of approximately 15.9% as compared with the year ended 31 December 2020.

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. Our games have been published in more than 100 countries and 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 has enjoyed wide popularity among game players. Further, with the current development of technology and market application in the PRC, the demand for cloud-related services in the Internet market will continue to grow in the foreseeable future. As such, the Group commenced the provision of cloud computing and related services as new additional business activities of the Group for the year ended 31 December 2021.

According to the “2021 Global Games Market Report” released by Newzoo in 2021, the global games market is expected to generate a revenue of US\$175.8 billion from consumers, representing a slight decrease of 1.1% year-on-year. The decline originates from the PC and the console markets, in which the annual revenue will fall 2.8% year-over-year to US\$35.9 billion and 8.9% to US\$49.2 billion, respectively. This is also mainly due to the post-pandemic effect reshaping the gaming market in 2021 and beyond. The mobile games market generated a revenue of US\$90.7 billion in 2021, representing a year-on-year growth of 4.4%. The revenue of this segment accounted for more than half of the total revenue generated from the global game market, as it was less affected by the global pandemic than the PC and console gaming markets. In 2021, the Asia-Pacific topped the world in terms of global game revenue with a market value of US\$88.2 billion, accounting for 50.2% of the global game revenue. Among which, the Chinese market has become a key contributor to the game revenue in the Asia-Pacific region with a revenue of US\$45.6 billion. Since the Asia-Pacific game market is dominated by mobile games, it was less impacted by the COVID-19 pandemic. In contrast, most of the North American players were console users, so the market was relatively more impacted by the COVID-19 pandemic. Nevertheless, the North America region still ranked second in the global game market revenue ranking in 2021, contributing as much as US\$42.6 billion in revenue (mainly from the United States). In the next few years, the Asia-Pacific and North America regions are expected to maintain a steady growth with a CAGR of approximately 8.7% and 7.9%, respectively, between 2019 and 2024.

According to the “Report on China’s Game Industry for 2021” (二零二一年中國遊戲產業報告) published by the Game Publishing Committee (GPC) of the China Audio-visual and Digital Publishing Committee, the China game market’s actual sales revenue increased by RMB17.826 billion from the prior year to RMB296.513 billion in 2021, representing a year-on-year growth of 6.4%. The number of China’s game players totaled 666 million, representing a year-on-year growth of 0.22%, which is becoming saturated. With the implementation of the new anti-addiction regulations and the deepening of the protection work for minors, the user structure will trend towards becoming more healthy and reasonable. The largest contributor to the domestic game market revenue is still proprietary developed games. In 2021, the domestic market for China’s proprietary developed games recorded a sales revenue of RMB255.819 billion, representing a year-on-year growth of 6.51%. Meanwhile, the overseas market for China’s proprietary developed games recorded a sales revenue of US\$18.013 billion, representing a year-on-year growth of 16.59%

Principal risks relating to our business

There are certain risks involved in our operations and our prospects and future financial results could be materially and adversely affected by these risks. The following highlight the principal risks exposed to the Group and are not meant to be exhaustive:

- we are required to comply with new policies or any amendment to current policies in relation to the gaming and cloud industries, which may affect our business operations;
- we face uncertainties in the continued growth of the gaming and cloud industries as well as the market acceptance of our games and cloud services;
- delays of game launches could negatively affect our operations and prospects;
- we rely on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees;
- if we are unable to extend the expected lifecycle of our web games and mobile games or if our cloud services do not meet the evolving needs of our cloud-related customers, our business, financial condition, results of operations and prospects could be materially and adversely affected;

- we rely on third-party distribution and publishing platforms to distribute and publish our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfill their obligations to us, our business and results of the operations will be materially and adversely affected; and
- our business relies on our data analysis capabilities, any impact on which would materially and adversely affect our ability to formulate appropriate business strategies.

To mitigate the identified risks, we shall monitor the risks, and review our business strategies and financial results. We have implemented the following strategies to ensure the risks are being managed:

- our Directors and management teams actively exchange views and information in relation to the new policies and amendments to current policies of the gaming and cloud industries with relevant regulatory authorities and take appropriate actions to respond to the changes and ensure the Group is in compliance with the latest applicable laws and regulations;
- our user support department is committed to tracking and responding to the changes in players' preferences in a timely and effective manner;
- we further strengthen our data analytics capabilities to continue developing popular games, and improving the gaming experience of players and the needs of our cloud-related customers;
- we constantly enhance or update our existing games with new features to attract players;
- to keep pace with the market, we bring on board new talents to keep the competitiveness of our businesses; and
- we strengthen our relationships with major domestic and international publishing and business partners.

OUTLOOK FOR 2022

For the gaming business in 2022, the Group will continue to enhance the quality of games and strive to create superior gaming products. The Group will make full use of its existing IPs and its years of experience in game development to form a diversified IP product line consisting of original creations, anime adaptations and domestic licensing. Themes and gaming types will be expanded to enrich the Group's product portfolio. As the gaming industry brings joy to people, we pay attention to user needs with the aim of offering a reasonable and comfortable gaming experience. By establishing a number of R&D evaluation mechanisms, the Group understands the differentiated needs of players based on the evaluation results of the artwork, operation and plot, etc. To boost its revenue and performance, the Group will analyze users' favourite gameplay that will generate the most revenue, optimise functions and rules for better gaming quality, and actively explore the diversification of income streams. In 2022, we will continue to strategically establish our global presence while focusing on the domestic market. Seeking suitable opportunities for strategic investment, we will also actively identify distinguished R&D teams and potential hit games to introduce quality products to the Group by means of game licensing, investment, merger and acquisition. This will reinforce and consolidate the upstream and downstream industry chain, enhancing our position in the industry.

We have completed the development of "DDTank Classics" (彈彈堂復古版), the new game of our core IP, and delivered it to the relevant Vietnamese operator. With testing completed in Vietnam, the game is expected to go through follow-up tests this year and move forward to overseas launch. "Wartune H5" (神曲H5), which features our classic IP, will begin its paid beta test in North America during the second quarter of 2022. We have also collaborated with females and game developers in China to come up with a new product called "Flowers and Dream" (花開易夢閣), which is initially planned to be launched in Taiwan in the second quarter of 2022 after multiple tests with positive data. In terms of our strategies for 2D Japanese anime IPs, we participated in the development of a mobile game featuring a well-known first-tier anime IP, which is expected to go through its first test in 2022. As China's first self-developed mobile game of this IP, we strive to create a faithful rendering for its large number of Chinese fans by incorporating the humour and fun of the original plot. In addition, we will publish a food-themed mobile game, "Mini Super Cook" (廚神小當家), which is adapted from a popular, influential anime IP. The business simulation game adapted from this IP is expected to be launched in 2022 in some of the overseas markets. We will also try to participate in more different segmented areas, including the incubation and preparation of products such as casual competitive games and female-oriented games, with the aim of capturing more market opportunities.

According to its development strategy in 2022, the Group will selectively acquire or invest in potential third-party IPs from popular literature, comics, social networks and other sources, or high-quality R&D and publishing companies in the industry chain. Alternatively, the Group will seek to partner with them to strengthen strategic collaboration. As disclosed in the Company's announcement dated 26 April 2021, the Group completed the acquisition of 100% equity interest in Beijing Meimai, which has established a cooperative relationship with the Roblox Platform in China. Roblox is the world's top sandbox game development company, and Beijing Meimai is primarily responsible for the collaborative R&D, content review and developer community maintenance of Roblox's platform gaming business in China. Mainly focusing on sandbox games and casual games, Beijing Meimai was involved in the R&D collaboration of six Roblox's products in 2021, and four of them were launched overseas and generated decent revenue. In 2022, Beijing Meimai will continue to strengthen the R&D collaboration of Roblox's gaming products, while actively developing casual games with advertising income.

IP licensing will remain as an important part of our long-term strategy. In 2022, we will continue to focus on IP R&D through IP licensing or cooperation with other quality vendors. We will continue to recruit more talents and retain existing talents with attractive remuneration policies to strengthen our on-going IP R&D capabilities. At the same time, we will actively seek appropriate investment and cooperation opportunities.

The Group will continue to improve its gaming portfolio and further enhance its gaming development capabilities and performance, so as to bring itself to another level of development. At the same time, the Group will strive to integrate, coordinate and optimise existing business resources and other resources, such as the R&D capabilities, gaming products, marketing channels, operational and management strengths, and existing game players of the businesses acquired or to be acquired.

Other than developing our current principal gaming business in 2022, we will proactively continue to explore and expand our business into other potential areas such as our existing cloud computing services and other related services. This will further enhance the sustainability and profitability of our business in the long run, and address the possible impact of the industry's increasingly competitive environment and ever-changing policies on the Company's business operation, creating value for the Group and the Shareholders. With the current rapid development of information technology and the significant demand for data in China, the demand for cloud computing and other cloud-related services will experience continuous and rapid growth in the foreseeable future. Therefore, the Group will continue to seek investment and development opportunities in the markets of cloud computing and cloud-related services in the future.

Hopeful about 2022, we expect to continue our business expansion in the domestic and overseas markets, further improve our global presence in the gaming industry, and continue to proactively explore development opportunities in the markets of cloud computing and cloud-related services. We will further enhance our comprehensive competitiveness, resource consolidation, sustainable development and risk resistance, strengthening our position in the industry and creating more value for the Shareholders.

CORONAVIRUS IMPACT

During the year ended 31 December 2021, COVID-19 has continued to spread around the world. China has implemented and continued to implement a number of preventive and control measures, including restricting and regulating people's travel and transportation arrangements to a certain extent, vaccination and the isolation of some residents, while strengthening health and pandemic prevention requirements in factories and offices, and implementing community management.

After assessing the Group's business operations and capital investment, the Group's current liquidity position and working capital are sufficient. In view of the instability of the spread of COVID-19, the Group has continued to take a series of necessary health precaution to mitigate the potential impact of the COVID-19 pandemic, including the implementation of prevention and control policies released by the relevant government authorities and adopting flexible work-from-home practices. Meanwhile, the Group has also continued to adopt cost control policies in order to improve risk averse capabilities. The Group will closely monitor the COVID-19 pandemic situation and, as the case may be, continue to assess the impact of the pandemic on the Group's financial and business operations from time to time.

FINANCIAL REVIEW

OPERATIONAL INFORMATION

Game Business

Our Games

During the year ended 31 December 2021, we continued to focus on the R&D of games and the operations of high-quality games to cope with the intensifying competition in the gaming industry. We have established various specialized studios for R&D as well as operation and publishing centers targeted at establishing a global presence for the R&D, operation and publishing of games. For the year ended 31 December 2021, the Group's online game revenue was mainly derived from several well-known games, including "DDTank" (彈彈堂) series, "Wartune" (神曲) series and "Chuanqi" (傳奇) series.

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 gaming industry, so that we can implement better business strategies.

For the year ended 31 December 2021, our web games had (i) an average MAUs of approximately 0.5 million; (ii) an average MPUs of approximately 37,000; and (iii) an ARPPU of approximately RMB477.3; and our mobile games had (a) an average MAUs of approximately 1.4 million; (b) an average MPUs of approximately 216,000; and (c) an ARPPU of approximately RMB220.8.

Cloud Business

During the year ended 31 December 2021, in addition to our current principal gaming business, the Group commenced the provision of cloud computing services and other cloud-related services as new business activities of the Group, in order to expand its income streams and create better returns for Shareholders as well as diversify its income streams. In this regard, throughout the year ended 31 December 2021, the Group entered into a series of agreements involving the purchase of various models of graphic cards, computer chassis, servers and other cloud computing accessories, which allowed the Group to provide cloud-related services and create value to its Shareholders. Such services would be provided in areas including anime, artificial intelligence, big data supercomputing and blockchain technology-related services. For further details of the development of the Group's cloud business, please refer to the Company's announcements dated 9 May 2021 and 20 December 2021, respectively.

YEAR ENDED 31 DECEMBER 2021 COMPARED TO THE YEAR ENDED 31 DECEMBER 2020

The following table sets forth the comparative statements of profit or loss for the years ended 31 December 2021 and 2020:

	Year ended 31 December		Year-on-year change %
	2021 (RMB'000)	2020 (RMB'000)	
Revenue	420,543	424,313	-0.9%
Cost of revenue	(196,072)	(110,835)	76.9%
Gross profit	224,471	313,478	-28.4%
Research and development expenses	(79,923)	(107,570)	-25.7%
Selling and marketing expenses	(13,092)	(28,858)	-54.6%
Administrative expenses	(74,580)	(72,374)	3.0%
Net reversal of impairment losses on financial assets under expected credit loss model	4,475	5,791	-22.7%
Other income	17,549	15,771	11.3%
Other losses, net	(41,176)	(68,059)	-39.5%
Operating profit	37,724	58,179	-35.2%
Finance income	1,686	804	109.7%
Finance costs	(3,134)	(3,868)	-19.0%
Finance costs, net	(1,448)	(3,064)	-52.7%
Share of results of joint ventures	—	(3,216)	-100.0%
Share of results of associates	54,854	—	—
Profit before income tax	91,130	51,899	75.6%
Income tax credit	6,860	28,102	-75.6%
Profit for the year	97,990	80,001	22.5%

REVENUE

The following table sets forth the breakdown of our revenue for the years ended 31 December 2021 and 2020:

	For the year ended 31 December			
	2021		2020	
	(RMB'000)	(% of total revenue)	(RMB'000)	(% of total revenue)
Types of goods or services				
Online game revenue	253,628	60.3%	278,461	65.6%
— Self-development games				
published by the Group	39,259	9.4%	24,369	5.7%
published by other publishers	187,719	44.6%	240,210	56.6%
— Licensed games				
published by the Group	8,592	2.0%	7,904	1.9%
published by other publishers	18,058	4.3%	5,978	1.4%
Sales of customization game software	—	—	8,585	2.0%
Sales of game copyrights	47,171	11.2%	35,000	8.2%
Sales of online game technology and publishing solutions services	42,791	10.2%	45,333	10.7%
Intellectual property licensing	27,999	6.7%	56,934	13.5%
Cloud storage service	23,222	5.5%	—	—
Cloud computing service	17,341	4.1%	—	—
Sales of cloud equipment	8,391	2.0%	—	—
Total	420,543	100.0%	424,313	100.0%

For the year ended 31 December 2021, total revenue was approximately RMB420.5 million, representing a decrease of approximately 0.9% as compared with the year ended 31 December 2020, which remained generally the same. This was mainly due to a slight decrease in game revenue and an increase in revenue from the Group's newly commenced cloud business during the year ended 31 December 2021.

Game Business

For the year ended 31 December 2021, revenue of the Group's game business was RMB253.6 million, representing a decrease of approximately 8.9% as compared with the year ended 31 December 2020. This was as a result of our new game products being still under R&D and pending market launch.

Cloud Business

For the year ended 31 December 2021, revenue of the Group's cloud business was RMB49.0 million (2020: Nil), as the Group had only commenced and gradually prepared for the operations of the business since April 2021.

COST OF REVENUE

Our cost of revenue mainly comprises employee salary and benefit expenses incurred by our operations departments, cost of game licensing and cloud business depreciation cost and lease expenses. The cost of revenue amounted to approximately RMB196.1 million for the year ended 31 December 2021, representing an increase of approximately 76.9% as compared to approximately RMB110.8 million for the year ended 31 December 2020, mainly due to the Group's commencement of cloud business as an additional business activity since April 2021, resulting in the increase in depreciation cost and lease expense from the Group's cloud business.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit amounted to approximately RMB224.5 million for the year ended 31 December 2021, representing a decrease of approximately 28.4% as compared to approximately RMB313.5 million for the year ended 31 December 2020.

Our gross profit margin was approximately 53.4% for the year ended 31 December 2021. For the year ended 31 December 2020, our gross profit margin was approximately 73.9%. Such decrease was mainly because of the additional gross loss from the Group's newly commenced cloud business during the year ended 31 December 2021, which led to a decrease in the overall gross profit margin of the Group.

Expenses

Research and Development Expenses

Our R&D expenses mainly comprise employee salary and benefit expenses incurred by our R&D department and outsourcing expenses. The R&D expenses amounted to approximately RMB79.9 million for the year ended 31 December 2021, representing a decrease of approximately 25.7% as compared to approximately RMB107.6 million for the year ended 31 December 2020. Such decrease was mainly due to the decrease in outsourcing expenses of the gaming business during the year ended 31 December 2021.

Administrative Expenses

Our administrative expenses mainly comprise employee salary and benefit expenses and professional consulting fees. The administrative expenses were approximately RMB74.6 million for the year ended 31 December 2021, representing a slight increase of 3.0% as compared to approximately RMB72.4 million for the year ended 31 December 2020.

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 RMB13.1 million for the year ended 31 December 2021, representing a decrease of approximately 54.6% as compared to RMB28.9 million for the year ended 31 December 2020. Such decrease was mainly due to the decrease in promotion expense for games.

Income Tax

The income tax credit decreased for the year ended 31 December 2021 as compared to the corresponding period in 2020, which was mainly a result of profit generated from certain subsidiaries during the year ended 31 December 2021. The estimated income tax rates applicable to the Group entities (excluding the entities that are currently tax exempted) for the year ended 31 December 2021 varied from 5% to 25% (2020: 12.5%–25%).

PROFIT FOR THE YEAR

For the year ended 31 December 2021, our profit attributable to owners of the Company amounted to approximately RMB94.2 million, representing an increase of approximately 15.9% as compared with the year ended 31 December 2020. Such increase was mainly attributable to the profit contribution of Wuxi Shouxin Network Technology Co., Ltd.* (無錫手心網絡科技有限公司) (“**Wuxi Shouxin**”), one of the Group’s associates, the equity interest of which was acquired during the year ended 31 December 2021.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances the operations with internally generated cash flow and equity or debt financing activities for its capital requirements. As at 31 December 2021, cash and bank balances amounted to RMB108.6 million (2020: RMB379.3 million), which were denominated in Renminbi. During the year ended 31 December 2021, the decrease in cash and bank balances was mainly due to the payment of consideration in relation to the acquisition of the Xinla Group and the payment of cloud server acquisition fees.

INTEREST BEARING LOAN

We adopt a prudent treasury management policy to ensure that our Group maintains a healthy financial position. As at 31 December 2021, our total borrowings amounted to approximately RMB10.0 million (2020: RMB56.5 million), representing a decrease of 82.3% year-on-year, mainly due to the repayment of a portion of our bank borrowings during the year ended 31 December 2021. As at 31 December 2021, our bank borrowings were denominated in Renminbi and were payable within one year. Details of the Group's bank borrowings, including maturities, currencies and interest rates, are set out in note 16 of the consolidated financial statements.

GEARING RATIO

As at 31 December 2021, the Group's gearing ratio was approximately 19.3% (2020: 28.5%). The decrease was mainly due to the decrease in the total liabilities during the year ended 31 December 2021, mainly as a result of the payment of consideration in relation to the acquisition of the Xinla Group, while total assets remained generally the same. The gearing ratio is calculated as total debt divided by total assets of the Group as at 31 December 2021.

CAPITAL EXPENDITURE

	Year ended 31 December		Year-on-year change %
	2021 (RMB'000)	2020 (RMB'000)	
Servers and other equipment	309,212	498	61,990.8%
Office furniture and leasehold improvement	1,370	1,507	(9.1%)
Vehicles	341	333	2.4%
Total	310,923	2,338	13,198.7%

Our capital expenditure includes servers and other equipment, office furniture and leasehold improvement and vehicles. The total capital expenditure for the years ended 31 December 2021 and 2020 was approximately RMB310.9 million and RMB2.34 million, respectively, the increase was mainly due to the procurement of servers and other equipment since April 2021 for the newly commenced cloud business.

FOREIGN EXCHANGE RISK

The Group operates in the 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 year ended 31 December 2021, the Group did not have policies to hedge any foreign currency fluctuations.

SIGNIFICANT INVESTMENTS HELD

Since January 2021, the Group had acquired 49% equity interest in Wuxi Shouxin, at an initial investment cost of RMB73.5 million (the “**Shouxin Investment**”). Wuxi Shouxin is principally engaged in the R&D of large-scale real-time role-playing mobile games (ARPG type).

The Shouxin Investment was accounted for as interest in associates. As at 31 December 2021, (i) the share of results of the Shouxin Investment was approximately RMB54.9 million; and (ii) no dividend was received. As at 31 December 2021, the carrying amount of the Shouxin Investment amounted to approximately RMB128.4 million. Accordingly, the carrying amount of the Shouxin Investment compared to the Group’s total assets as at 31 December 2021 was approximately 6.39% and therefore classified as a significant investment of the Group.

As at the date of this announcement, the Group had entered into a non-legally binding letter of intent with Shaoxing Shangyu Saihe Equity Investment Co., Ltd., (紹興上虞賽赫股權投資有限公司), the immediate holding company of Wuxi Shouxin, but no formal equity transfer agreement has been entered into between the parties in relation to the possible disposal our equity interest in Wuxi Shouxin. Depending on the progress of the project, further announcement(s) will be made by the Company regarding the Shouxin Investment as and when appropriate in compliance with the relevant requirements of the Listing Rules.

Save as disclosed above, the Group did not have any other significant investments held as of 31 December 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, the Company did not have other future plans for material investments or capital assets as of 31 December 2021.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

Save as disclosed in this announcement, the Company did not have any other material acquisitions or disposals of subsidiaries and associates during the year ended 31 December 2021.

CHARGE ON ASSETS

As of 31 December 2021, save as disclosed in note 16 of the consolidated financial statements, there was no other material charge on the Group's assets.

CONTINGENT LIABILITIES AND GUARANTEES

As of 31 December 2021, save as disclosed in note 19 of the consolidated financial statements, we did not have any other unrecorded significant contingent liabilities, guarantees or any material litigation against us.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 December 2021, we had 440 full-time employees, mostly based in Shenzhen, Wuxi and Shanghai, the PRC. The following table sets out the number of our employees by function as at 31 December 2021:

Function	Number of Employees	% of total
R&D	313	71.2%
Operation	67	15.2%
Administration	60	13.6%
Total	440	100%

For the year ended 31 December 2021, our employee remuneration amounted to approximately RMB125.4 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 Group 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 Group's contribution to their pension schemes.

MATERIAL LEGAL PROCEEDINGS

(i) Legal proceedings commenced by Qianhai Huanjing in March 2021

On 3 March 2021, the Company was informed by a subsidiary, Shenzhen Qianhai Huanjing Network Technology Co., Ltd. ("**Qianhai Huanjing**") that Qianhai Huanjing, as the plaintiff, filed a lawsuit (the "**March 2021 Lawsuit**") with the Shenzhen Intermediate People's Court (the "**Shenzhen Intermediate Court**") against Proficient City Limited, as the defendant, in relation to intellectual property rights dispute over the online game Wartune (神曲), and has received the Notice of Case Acceptance from the Shenzhen Intermediate Court. As at the date of this announcement, the March 2021 Lawsuit is still ongoing but is not expected to affect the normal business operation of the Group.

Details of the above legal proceedings are set out in the announcement of the Company dated 3 March 2021.

(ii) Legal proceedings commenced by Qianhai Huanjing in April 2021

On 28 April 2021, the Company was informed by Qianhai Huanjing that Qianhai Huanjing, as the plaintiff, has filed a lawsuit (the "**April 2021 Lawsuit**") with the Shenzhen Intermediate Court against Guangzhou Zhang Ying Kong Information Technology Company Limited (廣州掌贏控信息科技有限公司) and Angame Inc., as the defendants, in relation to the intellectual property rights contractual dispute over the mobile game version of the online game DDTank mobile (彈彈堂手遊), and had received the Notice of Case Acceptance from the Shenzhen Intermediate Court. As at the date of this announcement, the April 2021 Lawsuit has been suspended and has not affected the normal business operation of the Group.

Details of the above legal proceedings are set out in the announcement of the Company dated 28 April 2021.

SUBSEQUENT EVENTS

Possible disposal of Wuxi Shouxin

On 6 January 2022, the Group entered into a non-legally binding letter of intent with Shaoxing Shangyu Saihe Equity Investment Co., Ltd. (紹興上虞賽赫股權投資有限公司), the immediate holding company of Wuxi Shouxin, in relation to the possible disposal of 49% equity interest in Wuxi Shouxin.

Investment in rights to equity interest of a travel service company

On 6 January 2022, the Group entered into an agreement in relation to the investment in rights to 20% equity interest as agreed of a company principally engaged in travel service in the PRC held by an independent third-party for a consideration of RMB60,000,000. Such investment was made solely for investment purposes.

Possible investment in a company engaged in the R&D and manufacturing of advanced silicon chip

On 7 January 2022, the Group entered into a non-legally binding letter of intent to invest in no more than 3% equity interest in a company principally engaged in the R&D and manufacturing of advanced silicon chip. At the date of this announcement, no formal agreement has been entered into between the parties in relation to the possible investment.

Save as disclosed above and as further detailed in note 20 of the consolidated financial statements, the Company did not have any subsequent events after 31 December 2021.

FINANCIAL INFORMATION

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	420,543	424,313
Cost of revenue	6	(196,072)	(110,835)
Gross profit		224,471	313,478
Research and development expenses	6	(79,923)	(107,570)
Selling and marketing expenses	6	(13,092)	(28,858)
Administrative expenses	6	(74,580)	(72,374)
Net reversal of impairment losses on financial assets under expected credit loss model		4,475	5,791
Other income	4	17,549	15,771
Other gain or losses, net	5	(41,176)	(68,059)
Operating profit		37,724	58,179
Finance income	7	1,686	804
Finance costs	7	(3,134)	(3,868)
Finance costs, net	7	(1,448)	(3,064)
Share of results of associates		54,854	—
Share of results of joint ventures		—	(3,216)
Profit before income tax		91,130	51,899
Income tax credit	8	6,860	28,102
Profit for the year		97,990	80,001
Profit/(loss) attributable to:			
— Owners of the Company		94,236	81,309
— Non-controlling interests		3,754	(1,308)
		97,990	80,001
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share):			
Basic and diluted	9	0.0366	0.0333

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit for the year	97,990	80,001
Other comprehensive 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	340	1,563
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences of foreign operations	<u>4,525</u>	<u>20,254</u>
Other comprehensive income, net of tax	<u>4,865</u>	<u>21,817</u>
Total comprehensive income for the year	<u>102,855</u>	<u>101,818</u>
Total comprehensive income/(loss) attributable to:		
— Owners of the Company	99,101	103,126
— Non-controlling interests	<u>3,754</u>	<u>(1,308)</u>
	<u>102,855</u>	<u>101,818</u>

Consolidated Statement of Financial Position

At 31 December 2021

		As at 31 December	
		2021	2020
	Notes	RMB'000	RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		286,736	4,019
Right-of-use assets		83,796	7,854
Intangible assets		722,440	958,450
Interests in joint ventures		—	—
Interests in associates		133,454	—
Financial assets at fair value through other comprehensive income		2,697	2,357
Financial assets at fair value through profit or loss	11	138,474	208,044
Prepayment and other receivables	12	117,338	3,409
Restricted cash		138	1,946
Deferred income tax assets		50,141	57,071
		<u>1,535,214</u>	<u>1,243,150</u>
Current assets			
Inventories		2,019	—
Trade receivables	13	234,980	290,503
Prepayment and other receivables	12	84,409	162,518
Income tax recoverable		—	327
Financial assets at fair value through profit or loss	11	43,682	40,539
Restricted cash		1	1
Cash and cash equivalents		108,500	377,306
		<u>473,591</u>	<u>871,194</u>
Current liabilities			
Trade and other payables	17	203,430	309,612
Lease liabilities		51,860	5,026
Bank and other borrowings	16	10,000	56,546
Current income tax liabilities		9,275	29,713
Contract liabilities		69,442	73,794
		<u>344,007</u>	<u>474,691</u>
Net current assets		<u>129,584</u>	<u>396,503</u>
Total assets less current liabilities		<u>1,664,798</u>	<u>1,639,653</u>

		As at 31 December	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
Non-current liabilities			
Other payables	17	—	92,291
Lease liabilities		27,527	3,312
Deferred income tax liabilities		15,587	32,153
		<u>43,114</u>	<u>127,756</u>
Net assets		<u>1,621,684</u>	<u>1,511,897</u>
EQUITY			
Share capital	14	90	90
Share premium	14	4,083,085	4,083,085
Other reserves		(2,963,936)	(2,952,776)
Retained earnings		495,225	383,123
		<u>1,614,464</u>	<u>1,513,522</u>
Total equity attributable to owners of the Company		<u>1,614,464</u>	<u>1,513,522</u>
Non-controlling interests		<u>7,220</u>	<u>(1,625)</u>
Total equity		<u>1,621,684</u>	<u>1,511,897</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the development and distribution of web games and mobile games and cloud computing services and other related services in the People’s Republic of China (the “**PRC**”) and other countries and regions (the “**Business**”).

These consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated, and have been approved for issue by the Board of Directors of the Company on 11 March 2022.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for 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, that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are accounted for in accordance with IFRS 16 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

2.2 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRS issued by the IASB for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 9, IAS 39, Interest Rate Benchmark Reform – Phase 2
IFRS 7, IFRS 4 and IFRS 16

The Group has early applied the Amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021.

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “**Committee**”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3 Segment Information and Revenue

The Group's business activities, for which discrete financial statements are 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 mainly managed as a single segment during the reporting period and no segment information is presented, accordingly.

As at 31 December 2021 and 2020, the majority of the non-current assets of the Group were located in the PRC.

The Group's revenue for the years ended 31 December 2021 and 2020 are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Types of goods or services		
Online game revenue		
— Self-development games		
<i>published by the Group</i>	39,259	24,369
<i>published by other publishers</i>	187,719	240,210
— Licensed games		
<i>published by the Group</i>	8,592	7,904
<i>published by other publishers</i>	18,058	5,978
	<u>253,628</u>	<u>278,461</u>
Sales of customisation game software	—	8,585
Sales of game copyrights	47,171	35,000
Sales of online game technology and publishing solutions services	42,791	45,333
Intellectual property licensing	27,999	56,934
Cloud storage service	23,222	—
Cloud computing service	17,341	—
Sales of cloud equipment	8,391	—
	<u>420,543</u>	<u>424,313</u>
Timing of revenue recognition		
— At a point in time	126,351	152,929
— Over time	294,192	271,384
	<u>420,543</u>	<u>424,313</u>

4 Other Income

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants (<i>Note</i>)	13,190	4,263
Refunds of the PRC value-added tax	3,961	3,580
Investment income	171	2,800
Compensation income	—	1,772
Interest income on receivable from disposals of investments	—	2,735
Rent concession income	—	210
Others	227	411
	<u>17,549</u>	<u>15,771</u>

Note:

There is no unfulfilled condition or contingency in respect of the government grants.

5 Other Gain or Losses, Net

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Fair value change on financial assets at fair value through profit or loss	3,450	(23,791)
Fair value change on contingent consideration payable for acquisition of a subsidiary	(48,330)	(46,397)
(Loss)/gain on disposals of property, plant and equipment and right-of-use assets	(48)	66
Gain on disposal of intangible assets	3,047	—
Gain on disposal of subsidiaries	5,426	—
Foreign exchange (loss)/gains, net	(2,567)	467
Others	(2,154)	1,596
	<u>(41,176)</u>	<u>(68,059)</u>

6 Expenses by Nature

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of inventories sold	8,259	—
Employee benefit expenses	125,184	114,399
Share-based compensation (<i>Notes 15</i>)	204	2,741
Promotion and advertising expenses (<i>Note b</i>)	19,493	28,770
Channel service fee and cost of licensing	21,289	6,612
Utilities and office expenses	7,480	4,276
Outsourced technical service fees	14,436	37,579
Bandwidth and server custody fees	8,313	4,337
Travelling and entertainment expenses	10,366	6,242
Other professional consulting fees	11,717	21,743
Depreciation of property, plant and equipment	27,087	2,643
Depreciation of right-of-use assets	31,561	6,834
Amortisation of intangible assets	66,335	68,917
Short-term lease expenses	1,907	667
Auditors' remuneration		
— Audit services (<i>Note a</i>)	3,300	10,200
— Audit-related services	739	—
Tax and levies	5,233	2,925
Others	764	752
	<u>363,667</u>	<u>319,637</u>

Note:

- (a) In 2020, audit services under auditors' remuneration amounted to RMB10,200,000, which included Elite Partners CPA Limited's annual audit fee of RMB3,500,000 and Moore Stephens CPA Limited's audit and audit-related services fee (including annual audit, interim review, audit of major transaction and advisory for tax and compliance services) of RMB6,700,000.

In 2021, all auditors' remuneration was incurred to Elite Partners CPA Limited only.

- (b) Promotion and advertising expenses include sales of games and marketing expenses, publishing solution advertising services costs.

7 Finance Costs, Net

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Finance income		
Interest income on bank balances	1,254	341
Others	432	463
	<u>1,686</u>	<u>804</u>
Finance costs		
Interest expenses on bank and other borrowings	(322)	(3,134)
Interest expenses on lease liabilities	(2,010)	(517)
Others	(802)	(217)
	<u>(3,134)</u>	<u>(3,868)</u>
Finance costs, net	<u>(1,448)</u>	<u>(3,064)</u>

8 Income Tax Credit

The Group's income tax credit for year is analysed as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax		
— Income tax for the current year	(2,609)	(8,214)
— Under-provision in prior years	—	(18,767)
	<u>(2,609)</u>	<u>(26,981)</u>
Deferred income tax	9,469	55,083
	<u>9,469</u>	<u>55,083</u>
Income tax credit	<u>6,860</u>	<u>28,102</u>

9 Earnings Per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company	94,236	81,309
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	<u>2,574,268</u>	<u>2,441,664</u>
Basic earnings per share for profit attributable to owners of the Company	<u>0.0366</u>	<u>0.0333</u>

(b) Diluted

Diluted earnings per share is the same as basic earnings per share, as those contingently vesting shares in respect of the RSUs are not included in the computation of diluted earnings per share for the years ended 31 December 2021 and 2020, due to the fact that the non-market performance conditions of the RSUs were not satisfied as at the end of the reporting period.

10 Dividends

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).

11 Financial Assets at Fair Value through Profit or Loss

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current		
Listed shares in the PRC	52	51
Unlisted equity investments in the PRC (<i>Note</i>)	20,422	207,993
Unlisted trust and fund in the PRC	118,000	—
	<u>138,474</u>	<u>208,044</u>
Current		
Listed shares in Hong Kong	43,682	40,539
	<u>182,156</u>	<u>248,583</u>

Note: Included in the balance at 31 December 2020 was an equity investment in Shanghai Longrui of RMB207,420,000. The investment in Shanghai Longrui is accounted for as a financial asset at fair value through profit or loss since the Group does not have any significant influence on Shanghai Longrui. The investment was subsequently disposed in April 2021 at a consideration of RMB207,420,000 and the consideration was fully received by the Group on 28 April 2021.

12 Prepayment and Other Receivables

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current		
Prepayments for property, plant and equipment	108,500	—
Prepayments for technology services	—	2,358
Rental deposits	8,838	1,433
Loan to a joint venture (<i>Note e</i>)	—	2,000
Less: provision for impairment	—	(2,382)
	<u>117,338</u>	<u>3,409</u>
Current		
Loans to third parties (<i>Note a</i>)	6,427	7,420
Loan to a related party	2,487	2,581
Housing loans to employee	1,739	2,235
Prepayments for advertisement and marketing	302	6,277
Prepayments for advisory services	453	228
Prepayments for copyright royalty	15,708	705
Prepayments to game developers	10,790	8,786
Prepayments for investments (<i>Note b</i>)	1,000	23,638
Prepayments for technology services	24,321	26,253
Receivable from disposals of investments (<i>Note c</i>)	20,299	20,299
Receivable from refund for undelivered technology services	—	1,300
Receivable from disposal of property, plant and equipment and right-of-use assets (<i>Note d</i>)	—	80,000
Recoverable value-added tax (<i>Note g</i>)	34,535	16,572
Others (<i>Note f</i>)	20,490	30,090
Less: provision for impairment	(54,142)	(63,866)
	<u>84,409</u>	<u>162,518</u>
	<u><u>201,747</u></u>	<u><u>165,927</u></u>

Notes:

- (a) On 31 January 2018, the Group granted a loan of US\$600,000 to an independent third party at an interest rate of 5% per annum with maturity date on 31 December 2021.

On 26 November 2018, the Group granted a loan of HK\$2,480,000 to an independent third party supplier at an interest rate of 5% per annum with a maturity period with maturity date on 25 November 2023.

- (b) On 7 November 2020, the Group entered into a sale and purchase agreement with Shanghai Guanzhao Investment Centre (Limited Partnership) (上海冠兆投資中心(有限合夥)), Shanghai Chengpei Investment Centre (Limited Partnership) (上海成沛投資中心(有限合夥)), Shanghai Yinrong Investment Centre (Limited Partnership) (上海銀榮投資中心(有限合夥)) and Joyful Time Global Ltd. (collectively referred to as the “**Vendors**”) for the purpose of acquiring Locojoy HongKong International Limited (“**Locojoy HongKong**”). Pursuant to the sale and purchase agreement, the Group conditionally agreed to acquire and the Vendors conditionally agreed to sell the entire issued share capital of Locojoy HongKong at a total consideration of RMB1,183,650,000, subject to certain adjustments. Pursuant to the sale and purchase agreement, the Group had made prepayments of RMB20,000,000 in aggregate to the Vendors on 11 November 2020. During the year ended 31 December 2021, the acquisition was terminated and the prepayment was fully refunded.
- (c) On 12 June 2018, the Group, entered into a series of agreements with Shenzhen Longyoutianxia Internet Technology Co., Ltd. (深圳市龍游天下網絡科技有限公司) (“**Shenzhen Longyoutianxia**”), an independent third-party of the Group. Pursuant to the series of agreements, the Group disposed certain equity investments to Shenzhen Longyoutianxia at a consideration of RMB27,149,000. However, due to the financial difficulty of Shenzhen Longyoutianxia, only RMB6,850,000 of the consideration was settled and full impairment on the remaining RMB20,299,000 was provided during the year ended 31 December 2018. There is no repayment from Shenzhen Longyoutianxia during the years ended 31 December 2020 and 2021.
- (d) On 31 December 2020, the Group entered into a sale and a purchase agreement with an independent third-party to dispose its buildings (under property, plant and equipment) and the related leasehold lands (under right-of-use assets) for a total consideration of RMB85,000,000, plus an additional agreed construction compensation and others of RMB5,000,000. The above amount had been settled on 12 January 2021.
- (e) On 6 November 2020, the Group granted a loan of RMB2,000,000 to a joint venture. The loan is an unsecured and interest-free loan with maturity date on 9 November 2023.
- (f) On 17 August 2020, the Group entered into a joint television drama investment agreement with two independent third-parties. Pursuant to the joint television drama investment agreement, the Group was required to invest RMB14,000,000 for the production of the underlying television drama, which represented 10% of the total production costs (i.e. RMB140,000,000), and the Group was guaranteed to receive its investment sum together with a 20% return from the investment by 31 December 2020. As at 31 December 2020, the Group has invested a total of RMB14,000,000. The television drama’s production was completed, and the drama is expected to be broadcasted soon, which was delayed due to COVID-19 pandemic. The related 20% return RMB2,800,000 was fully received on 24 May 2021.
- (g) Including the VAT refund receivables and amount of VAT tax credit under the preferential policy of immediate refund for software products.

13 Trade Receivables

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	251,040	307,019
Less: provision for impairment	(16,060)	(16,516)
	<u>234,980</u>	<u>290,503</u>

The Group's trade receivables were denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	145,354	277,097
US\$	66,429	27,292
Others	39,257	2,630
	<u>251,040</u>	<u>307,019</u>

The Group allows a credit period of 30 to 120 days to its customers. The ageing analysis of trade receivables presented based on the dates of delivery of goods and services is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	132,687	164,190
3 to 6 months	72,456	32,292
6 months to 1 year	29,792	57,091
1 to 2 years	—	48,121
Over 2 years	16,105	5,325
	<u>251,040</u>	<u>307,019</u>

14 Share Capital and Share Premium

	Number of shares	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Ordinary shares of US\$0.000005 each				
As at 1 January 2020	2,619,500,000	86	3,791,696	3,791,782
Issue of shares	133,700,000	4	291,620	291,624
Transaction costs attributable to issue of shares	—	—	(231)	(231)
As at 31 December 2020 and 2021	<u>2,753,200,000</u>	<u>90</u>	<u>4,083,085</u>	<u>4,083,175</u>

15 Equity-settled share-based compensation

As a private company with no quoted market price of the ordinary shares of the Company at the date of grant, the Company was required to estimate the fair value of its ordinary shares at the date of grant. The discounted cash flow model under the income approach has been applied in the determination of fair value of the equity interest of the Company. The cash flow projections prepared by the management take into account the Group's future business plan, specific business and financial risks, 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.

Movement of the RSU Scheme for the year is as follows:

	2021	2020
At beginning of the year	7,740,000	19,547,500
Granted	—	—
Forfeited or lapsed	(7,740,000)	(11,807,500)
Vested and settled	—	—
At end of the year	<u>—</u>	<u>7,740,000</u>

Expenses arising from the share-based compensation have been charged to the consolidated statement of profit or loss as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Share-based compensation (<i>Note 6</i>)	<u>204</u>	<u>2,741</u>

16 Bank and other borrowings

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Secured bank and other borrowings		
— RMB loan (<i>Note a</i>)	—	56,546
Unsecured bank and other borrowings		
— RMB loan (<i>Note b</i>)	<u>10,000</u>	<u>—</u>
	<u>10,000</u>	<u>56,546</u>

Notes:

- (a) On 12 September 2016, the Group was granted with a loan from a bank of RMB61,600,000 at an interest rate of RMB Loan Prime Rate plus 1.09% per annum for a period of 10 years. The outstanding bank borrowing was fully repaid subsequently on 21 January 2021.

On 4 March 2020, the Group was granted with a loan from a bank of RMB15,000,000 at an interest rate of RMB Loan Prime Rate plus 1.3875% per annum for a period of 1 year. The outstanding bank borrowing was fully repaid on 18 January 2021.

On 6 July 2020, the Group was granted with a loan from a bank of RMB15,000,000 at an interest rate of RMB Loan Prime Rate plus 1.5875% per annum for a period of 1 year. The outstanding bank borrowing was fully repaid on 18 January 2021.

- (b) On 28 December 2021, the Group was granted with a loan from a bank of RMB10,000,000 at an interest rate of RMB Loan Prime Rate plus 0.1% per annum for a period of 1 year. The outstanding bank borrowing was guaranteed by the director of the Company.

As the end of the reporting period, the Group's bank and other borrowings were repayable as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 year	10,000	56,546
1 to 2 years	—	—
2 to 5 years	—	—
Over 5 years	—	—
	10,000	56,546

At the end of the reporting period, the carrying amounts of the Group's bank and other borrowings approximate to their fair values.

17 Trade and other payables

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Non-current		
Contingent consideration payable for acquisition of a subsidiary	—	92,291
Current		
Trade payables (<i>Note a</i>)	13,779	9,199
Payroll liabilities	36,288	35,108
Other tax payables	10,624	15,624
Dividend payables	1	1
Listing fee payable	7,452	7,626
Government grants	138	1,935
Accrued expenses	3,171	11,211
Contingent consideration payable for acquisition of a subsidiary (<i>Note b</i>)	131,741	195,709
Payable for financial assets at fair value through profit or loss	—	20,000
Others	236	13,199
	203,430	309,612
	203,430	401,903

Notes:

(a) the ageing analysis of trade payables presented based on the invoice date is as follows:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	4,210	961
31 to 60 days	5,019	1,294
61 to 90 days	518	459
91 to 180 days	2,143	1,390
181 to 365 days	250	1,352
Over 1 year	1,639	3,743
	<u>13,779</u>	<u>9,199</u>

(b) Contingent consideration payable

Movement of the contingent consideration payable during the years ended 31 December 2021 and 2020 is as follows:

	<i>RMB'000</i>
At 1 January 2020	497,709
Cash settlements	(230,324)
Fair value change (<i>Note 5</i>)	46,397
Exchange realignment	<u>(25,782)</u>
At 31 December 2020	288,000
Cash settlements	(200,000)
Fair value change (<i>Note 5</i>)	48,330
Exchange realignment	<u>(4,589)</u>
At 31 December 2021	<u><u>131,741</u></u>

Depending on the result of Adjustment Mechanism (as described below), included in the contingent consideration payable of RMB131,741,000 (2020: RMB288,000,000) as at 31 December 2021, RMB131,741,000 (2020: RMB195,709,000) is payable within twelve months after the end of the reporting period and is included in current liabilities. The remaining amounts of RMBnil (2020: RMB92,291,000) is payable more than twelve months after the end of the reporting period, and is included in non-current liabilities.

On 22 October 2019, the Group acquired 100% equity interest in Osmanthus Vale. Pursuant to the sale and purchase agreement, the consideration of the acquisition is RMB1,000,000,000. However, the fair value of contingent consideration is adjusted due to following two reasons:

- (i) The fair value of contingent consideration is adjusted by time value of money, by discounting future cash outflows to the present value as at the date of acquisition.
- (ii) Pursuant to the sale and purchase agreement, the fair value of contingent consideration is also subject to the adjustment mechanism in respect of, “Profit Compensation”, “Goodwill Impairment Compensation” and “Additional Consideration” (collectively referred to as the “**Adjustment Mechanism**”), as described below:
 - (a) The Profit Compensation may reduce the contingent consideration to as low as zero shall the actual net profit (the “**Actual Net Profit**”) of Osmanthus Vale and its subsidiaries (collectively referred to as the “**Acquired Group**”) for the three financial years ended/ending 31 December 2019, 2020 and 2021 fall below RMB117,000,000, RMB134,000,000 and RMB151,000,000 (the “**Net Profit Benchmark**”), respectively, for certain level in accordance with the formulas set out below:

For the year ended 31 December 2019

Profit compensation for the year ended 31 December 2019 = RMB1,000,000,000 x (Net Profit Benchmark for the year ended 31 December 2019 — Actual Net Profit for the year ended 31 December 2019)/Total Net Profit Benchmark

For the year ended 31 December 2020

Profit compensation for the year ended 31 December 2020 = RMB1,000,000,000 x (Net Profit Benchmark for the year ended 31 December 2020 — Actual Net Profit for the year ended 31 December 2020)/Total Net Profit Benchmark

For the year ending 31 December 2021

Profit compensation for the year ending 31 December 2021 = RMB1,000,000,000 x (Net Profit Benchmark for the year ending 31 December 2021 — Actual Net Profit for the year ending 31 December 2021)/Total Net Profit Benchmark

- (b) The Goodwill Impairment Compensation may reduce the contingent consideration by the goodwill impairment amounts net of Profit Compensation for each of the financial years ended/ending 31 December 2019, 2020 and 2021 in accordance with the formulas set out below:

For the year ended 31 December 2019

Goodwill Impairment Compensation for the year ended 31 December 2019 = impairment amount of goodwill for the year ended 31 December 2019 — the Profit Compensation for the year ended 31 December 2019 (if any)

For the year ended 31 December 2020

Goodwill Impairment Compensation for the year ended 31 December 2020 = impairment amount of goodwill for the year ended 31 December 2020 — the Profit Compensation for the year ended 31 December 2020 (if any)

For the year ending 31 December 2021

Goodwill Impairment Compensation for the year ending 31 December 2021 = impairment amount of goodwill for the year ending 31 December 2021 — the Profit Compensation for the year ending 31 December 2021 (if any)

- (c) The Additional Consideration may increase the contingent consideration for an additional cash consideration of RMB200,000,000 and additional shares to be issued by the Company to the vendor, limited to 4.5% of the total issued share capital of the Company as at the date of acquisition, shall the Acquired Group successfully fulfil the Net Profit Benchmark for each of the financial years ended/ending 31 December 2019, 2020 and 2021, and the aggregate actual net profits for the three financial years ended/ending 31 December 2019, 2020 and 2021 exceed the total Net Profit Benchmark of RMB402,000,000 in accordance with the formulas set out below:

In the event that the aggregate amount of the total Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 exceeds of RMB402,000,000 but less than RMB510,000,000

Additional Consideration = (Aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 — RMB402,000,000) x 60%

In the event that the aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 equals to RMB510,000,000

Additional Consideration = RMB200,000,000

In the event that the aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 exceeds RMB510,000,000 but less than (or equals to) RMB600,000,000

Additional Consideration = RMB200,000,000 plus additional shares issued by the Company to the vendors (the “Additional Shares”)

Number of Additional Shares = (Aggregate amount of the Actual Net Profit for the years ended/ending 31 December 2019, 2020 and 2021 — RMB510,000,000) x 2.35/HK\$2.10

In any event, the Additional Shares shall not exceed 4.5% of the total issued share capital of the Company as at the date of acquisition.

In the event that the aggregate amount of the Actual Net Profit for the years ended/ ending 31 December 2019, 2020 and 2021 exceeds RMB600,000,000

Additional Consideration = RMB200,000,000 plus Additional Shares

Number of Additional Shares = 100,714,286 shares

100,714,286 shares represent approximately 3.84% of the total issued share capital of the Company as at the date of acquisition. Such number of Additional Shares is determined in accordance with the formula below:

Number of Additional Shares = (RMB600,000,000 — RMB510,000,000) x 2.35/HK\$2.10

For the year ended 31 December 2021, according to the results of the Adjustment Mechanism, the fair value of the contingent consideration payable of RMB31,741,000 (2020: Nil) was recognised. Among which, the aggregate actual net profits of Osmanthus Vale and its subsidiaries for the financial years ended 31 December 2019, 2020 and 2021 exceed RMB402,000,000 but less than RMB510,000,000.

18 Acquisition of a subsidiary

During the year ended 31 December 2021, the Group acquired 100% equity interest in Beijing Meimai Technology Co., Ltd. (“**Beijing Meimai**”) at cash consideration of RMB10,000,000 and its subsidiary are principally engaged in the development and operations of sandbox games. The acquisition has been accounted for as acquisition of business using the acquisition method. The primary reasons for the acquisition were to the expand the Group’s business into domestic sandbox gaming development and enhance the Group’s customer base.

Details of fair value of net identifiable assets acquired at the date of acquisition and goodwill arising from the acquisition are as follow:

	<i>RMB'000</i>
Consideration transferred	
— Cash	10,000
Fair value of net identifiable assets acquired (See below)	<u>(9,151)</u>
Goodwill arising from the acquisition	<u><u>849</u></u>

The fair values of the assets and liabilities of the acquiree at date of acquisition are as follows:

	<i>RMB'000</i>
Property, plant and equipment	94
Intangible assets	6
Right of use assets	748
Trade receivables	637
Prepayment and other receivables	229
Cash and cash equivalents	8,413
Trade and other payables	(228)
Lease liabilities	(748)
	<hr/>
Net identifiable assets acquired by the Group	<u><u>9,151</u></u>

The net cash outflow arising from the acquisition is as follows:

	<i>RMB'000</i>
Cash consideration	10,000
Cash and cash equivalents acquired	(8,413)
	<hr/>
Net cash outflow arising from the acquisition	<u><u>1,587</u></u>

Goodwill arising from the acquisition is not expected to be deductible for tax purposes.

During the year ended 31 December 2021, Beijing Meimai and its subsidiary contributed RMB52,501,000 and RMB50,271,000 to the Group's revenue and profit after tax, respectively, for the period between the date of acquisition and the end of the reporting period.

Had the acquisition been effected on 1 January 2021, revenue and profit after tax of the Group for the year ended 31 December 2021 would have been RMB420,710,000 and RMB96,869,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and profit after tax of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

19 Contingencies

On 27 April 2020, Guangzhou Zhang Ying Kong Information Technology Company Limited (“**Zhang Ying Kong**”), a subsidiary of Digital Hollywood Interactive Limited (“**Digital Hollywood**”) litigated against Shenzhen Qianhai Huanjing Network Technology Co., Ltd. (深圳市前海幻境網絡科技有限公司) and Shenzhen 7Road Technology Co., Ltd. (深圳第七大道科技有限公司), both subsidiaries of the Group, concerning a game cooperation agreement (the “**Litigation**”). The Litigation was filed to the People’s Court of Haizhu District, Guangzhou, the PRC on 18 May 2020 and was subsequently transferred to the Guangzhou Intellectual Property Court on 30 June 2020. The two trials of the Litigation was conducted on 2 April 2021 and 25 January 2022 respectively, and no judgment has been made yet. The Group has already engaged lawyers to act for its defense. As the Company believes that Zhang Ying Kong and other subsidiaries of Digital Hollywood breached the contracts in advance in respect of a series of cooperation with the Group, while the Group has consistently performed its obligations under the contracts, the Group’s claims will have a greater chance to be supported. Therefore, the management believes that the results of the Litigation will not have any material adverse effect on the consolidated financial statement. Subject to further development of the Litigation, the actual effect might differ from above expectations.

20 Events after the reporting period

Possible disposal of 49% equity interest in Wuxi Shouxin Network Technology Co., Ltd.* (無錫手心網絡科技有限公司) (“Proposed Target”)

On 6 January 2022, Shanghai Xinla entered into a non-legally binding letter of intent for equity transfer (the “**Letter of Intent**”) with Shaoxing Shangyu Saihe Equity Investment Co., Ltd. (紹興上虞賽赫股權投資有限公司), a company established in the PRC and the immediate holding company of the Proposed Target, relating to the possible disposal of 49% of the equity interest of the Proposed Target (“**Proposed Disposal**”). The Proposed Target is currently an associate of the Company. At the date of this announcement, no formal equity transfer agreement was entered by both parties and a refundable deposit of RMB100 million was received by the Group in accordance with the Letter of Intent.

Investment in rights to equity interest of a travel service company

On 6 January 2022, the Group entered into an agreement in relation to the investment in rights to 20% equity interest as agreed of a company principally engaged in travel service in the PRC held by an independent third-party for a consideration of RMB60,000,000.

Possible investment in a company engaged in research and development and manufacturing of advanced silicon chip

On 7 January 2022, the Group entered into a non-legally binding letter of intent to invest in no more than 3% equity interest in a company principally engaged in research and development and manufacturing of advanced silicon chip. At the date of this announcement, no formal agreement has been entered into between the parties in relation to the possible investment and a refundable deposit of RMB90,000,000 was paid by the Group.

OTHER INFORMATION AND CORPORATE GOVERNANCE HIGHLIGHTS

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company (the “AGM”) is expected to be held on 20 April 2022. A notice containing the details of convening the AGM and the book closure of register of members, for the purpose of ascertaining Shareholders’ entitlement to attend the AGM, will be published and despatched to Shareholders in the end of March 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any Shares.

FINAL DIVIDEND

The Board did not recommend to declare a final dividend for the year ended 31 December 2021.

COMPLIANCE WITH CG CODE

The Company has complied with all the applicable code provisions of the CG Code, as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2021.

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 the Directors and employees of the Group who, because of their office or employment, are likely to possess inside information in relation to the Group or the Company’s securities.

Having made specific enquiry of all Directors, they have all confirmed that they have complied with the Model Code for the year ended 31 December 2021. In addition, the Company is not aware of any non-compliance of the Model Code by the relevant employees during the year ended 31 December 2021.

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 Mr. Lui Chi Ho. Mr. Xue Jun is the chairman of the Audit Committee. The Audit Committee has reviewed the Annual Results.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been confirmed by the Company's auditor, Elite Partners CPA Limited, to be the same amounts set out in the Group's consolidated financial statements for the year ended 31 December 2021.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2021 ANNUAL REPORT

This 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 annual report of the Group for the year ended 31 December 2021 will be despatched to the Shareholders and available on the above websites in the end of March 2022.

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 the game, the 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

“Beijing Meimai”	Beijing Meimai Technology Co. Ltd. (北京美麥科技有限公司), a limited company established in the PRC
“Board”	the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China, unless otherwise stated, excludes Hong Kong, the Macau Special Administrative Region and Taiwan herein
“Contractual Arrangements”	certain contractual arrangements entered into on 13 April 2018 by us
“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)
“CG Code”	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“COVID-19”	the Coronavirus disease (2019)
“Director(s)”	the director(s) of the Company
“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 the Company by virtue of the Contractual Arrangements, or, where the context so requires, in respect of the period before the Company became the holding company of its current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“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 a 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
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“RSU Scheme”	the restricted share unit scheme adopted by the 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
“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
11 March 2022

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 Mr. Lui Chi Ho.

* *For identification purposes only*