

boyaa

Boyaa Interactive International Limited

博雅互動國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code:0434



2019年報  
Annual Report



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## Corporate Information

### BOARD OF DIRECTORS

#### *Executive Directors*

Mr. Dai Zhikang (*Chairman*)  
Ms. Tao Ying (*Acting Chief Executive Officer*)

#### *Independent Non-executive Directors*

Mr. Cheung Ngai Lam  
Mr. Choi Hon Keung Simon  
Mr. You Caizhen (*retired on 14 July 2019*)  
Mr. Sun Zihua (*appointed on 14 July 2019*)

### AUDIT COMMITTEE

Mr. Cheung Ngai Lam (*Chairman*)  
Mr. Choi Hon Keung Simon  
Mr. You Caizhen (*retired on 14 July 2019*)  
Mr. Sun Zihua (*appointed on 14 July 2019*)

### NOMINATION COMMITTEE

Ms. Tao Ying (*Chairlady*)  
Mr. Choi Hon Keung Simon  
Mr. You Caizhen (*retired on 14 July 2019*)  
Mr. Sun Zihua (*appointed on 14 July 2019*)

### REMUNERATION COMMITTEE

Mr. Cheung Ngai Lam (*Chairman*)  
Mr. Choi Hon Keung Simon  
Mr. You Caizhen (*retired on 14 July 2019*)  
Mr. Sun Zihua (*appointed on 14 July 2019*)

### COMPANY SECRETARY

Ms. Lai Siu Kuen

### AUTHORISED REPRESENTATIVES

Ms. Tao Ying  
Ms. Lai Siu Kuen

### AUDITOR

ZHONGHUI ANDA CPA Limited  
*Certified Public Accountants*  
Unit 701, Citicorp Centre  
18 Whitfield Road  
Causeway Bay  
Hong Kong

### COMPANY'S WEBSITE

[www.boyya.com.hk](http://www.boyya.com.hk)

### STOCK CODE

0434



## Corporate Information

### HEADQUARTERS IN THE PRC

8/F, Block E1  
International E Town  
TCL Industry Park  
1001 Zhong Shan Yuan Road  
Nanshan District, Shenzhen, PRC  
Postal code: 518000

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited  
PO Box 1093, Boundary Hall, Cricket Square  
Grand Cayman KY1-1102  
Cayman Islands

### HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### REGISTERED OFFICE IN THE CAYMAN ISLANDS

The offices of Maples Corporate Services Limited  
PO Box 309  
Ugland House  
Grand Cayman KY1-1104  
Cayman Islands

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14/F, Golden Centre  
188 Des Voeux Road Central  
Hong Kong

### PRINCIPAL BANK

China Merchants Bank, Shenzhen Branch  
Industrial Bank, Hong Kong Branch

## Chairman's Statement



**Dai ZhiKang**  
Chairman

Concentrating on card and board games  
Focusing on users' experience  
Forging a century-old brand name

Dear Shareholders,

On behalf of the board of directors of Boyaa Interactive International Limited, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2019.

In 2019, we continued to move forward in the face of challenges. Our revenue in 2019 recorded a decrease of approximately 28.6% as compared to the same period in 2018, which was mainly due to (1) the impact from the incident of Apple Inc. carrying out rectification and inspection of the applications launched on its system starting from the second quarter of 2017 (the "**Apple Incident**"); (2) the effect of relevant policy risk factors regarding the market rumor of the implementation of the "Administrative Measures of Online Chess and Card Games" by the Chinese government aiming to shut down Texas Hold'em poker games, and comprehensively prohibit the operation of Texas Hold'em poker games starting from 1 June 2018. Although such a policy has not yet been implemented, certain platforms have removed relevant products, which affected our revenue to a certain extent ("**Policy Risk Factor**"); and (3) the decrease in revenue generated from web-based games due to the industry trend of a gradual shift from web-based games to mobile terminals. However, the impact of Policy Risk Factor was under controlled after the fourth quarter in 2018.

In 2019, we recorded an unaudited non-IFRS adjusted net profit of approximately RMB34.2 million, representing a year-on-year decrease of approximately 83.3% compared to the same period in 2018, mainly due to the decrease in revenue and the non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships due to market factors. Excluding the impact of non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships, the unaudited non-IFRS adjusted net profit in 2019

## Chairman's Statement

year-on-year decreased by approximately 47.1% compared to 2018, mainly due to the year-on-year decline in revenue as a result of the Policy Risk Factor. However, the impact of Policy Risk Factor was under controlled after the fourth quarter in 2018.

In 2019, we held the fifth session of BPT branded competition series – BPT 2019 match in Hanoi, Vietnam, BPT 2019 match in Asia and BPT 2019 match in Europe successfully. We also held the 2019 “Boyaa” Chess League among nine universities in Yunnan; the 2019 “Boyaa” Landlords Competition in Changsha; the 2019 “Boyaa” Chess Competition in Shenzhen and Changsha; and the 2019 “Boyaa” Mahjong Competition in Zigong and Chengdu. “Boyaa” Competitions aim to promote the philosophy of public welfare by way of card and board games, and to guide and encourage our users to actively participate in public welfare undertakings through these competitions. We donated a total of RMB100,873 for environment protection and the public welfare program for students in poverty to the Red Cross Society of China, Shenzhen Branch through these events. Holding of public welfare events involve game users actively participating in the Boyaa games and public welfare undertakings, and thus further increase the loyalty of our users, and strengthen the influence of our “Boyaa” brand. Inheritance of the traditional culture of Chinese card and board games in the form of public welfare competition have created a healthy and green environment for card and board games and brought good experience for the users.

In terms of gaming products, we provided a total of 78 online gaming product portfolio with a total of 11 languages as at 31 December 2019. During 2019, we still continued to focus on research and development (“R&D”) of game products, innovation of gameplay, enrichment of game products and optimisation of user experience, we made efforts to refine our products and diversify our operation in a steady manner to improve the quality of our gaming products while also constantly exploring and trying new operation mode.

In 2020, we will continue to develop the following:

- further explore the domestic and overseas operational model of card and board games;
- further explore overseas market for card and board games;
- keep focusing on the development and innovation of mobile-based products and devote more efforts to expand other card and board gaming business to continually enrich the contents and rules of the games;
- constantly improve our basic infrastructure and gaming features, and focus on enhancing the experience and service quality we provide to our users; and
- research and develop new gaming competition to enhance and consolidate the loyalty of our players.

In 2020, the Company will continue to strictly comply with various laws and regulations of the People's Republic of China (the “PRC”) and will focus on the R&D of online card and board games by upholding the player-oriented philosophy, create a green and healthy environment for intellectual and competitive card and board games and move forward on its journey to forge a century-old brand for Boyaa card and Board games.

We are full of confidence and anticipation for the future and the Board, the management and all staff of the Group share a common goal. With our steadfast belief and strong team-spirit, we will continue to step forward with our unremitting efforts, striving for the best interests for every stakeholder!

I would like to take this opportunity to express my sincere gratitude to the Board, the management and all staff of the Group for their dedication in the past year to the Group, and to the shareholders of the Company and business partners for their concerns for, and confidence in, the Group!

**Dai Zhikang**  
Chairman



## Financial Summary

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|  | For the year ended 31 December |                 |                 |                 |                 |
|--|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|  | 2019<br>RMB'000                | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Revenue  | 323,816                        | 453,234         | 735,602         | 745,194         | 813,480         |
| Gross profit   | 221,164                        | 304,970         | 457,267         | 471,708         | 427,944         |
| Profit before income tax   | 46,845                         | 207,217         | 269,713         | 238,761         | 420,110         |
| Profit for the year  | 33,760                         | 201,532         | 243,245         | 211,271         | 356,637         |
| Total comprehensive income for the year                          | 14,076                         | 122,786         | 213,880         | 192,653         | 351,769         |
| Profit attributable to owners of the Company                     | 33,760                         | 201,532         | 243,245         | 211,271         | 357,799         |
| Total comprehensive income attributable to owners of the Company | 14,076                         | 122,786         | 213,880         | 192,653         | 352,931         |

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                       | As at 31 December |                 |                 |                 |                 |
|---------------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
|                                       | 2019<br>RMB'000   | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 |
| <b>Assets</b>                         |                   |                 |                 |                 |                 |
| Non-current assets                    | 666,974           | 769,575         | 767,877         | 596,046         | 617,447         |
| Current assets                        | 1,726,181         | 1,757,638       | 1,738,196       | 1,688,908       | 1,462,353       |
| Total assets                          | 2,393,155         | 2,527,213       | 2,506,073       | 2,284,954       | 2,079,800       |
| <b>Equity and liabilities</b>         |                   |                 |                 |                 |                 |
| Total equity                          | 2,110,243         | 2,265,034       | 2,224,161       | 2,021,565       | 1,806,304       |
| Non-current liabilities               | 12,823            | 18,811          | 2,899           | 15,195          | 41,628          |
| Current liabilities                   | 270,089           | 243,368         | 279,013         | 248,194         | 231,868         |
| Total liabilities                     | 282,912           | 262,179         | 281,912         | 263,389         | 273,496         |
| Total equity and liabilities          | 2,393,155         | 2,527,213       | 2,506,073       | 2,284,954       | 2,079,800       |
| Net current assets                    | 1,456,092         | 1,514,270       | 1,459,183       | 1,440,714       | 1,230,485       |
| Total assets less current liabilities | 2,123,066         | 2,283,845       | 2,227,060       | 2,036,760       | 1,847,932       |



# Management Discussion and Analysis

## BUSINESS OVERVIEW AND OUTLOOK

### Review of 2019

In terms of financial performance, in 2019, we recorded a revenue of approximately RMB323.8 million, representing a year-on-year decrease of approximately 28.6% compared to the same period in 2018, which was mainly attributable to (1) the impact from the incident of Apple Inc. carrying out rectification and inspection on the applications launched on its system starting from the second quarter of 2017 (the “**Apple Incident**”); (2) the effect of regulatory risk regarding the market rumor of the implementation of the “Administrative Measures of Online Card and Board Games” by the Chinese government aiming to shut down Texas Hold’em poker games and prohibiting the operation of Texas Hold’em poker games starting from 1 June 2018. Although such a policy has not yet been implemented, certain platforms have removed relevant products, which affected our revenue to a certain extent (“**Policy Risk Factor**”); and (3) revenue generated from web-based games decreased due to the industry trend of a gradual shift from web-based games to mobile terminals.

In 2019, we recorded an unaudited non-IFRS adjusted net profit of approximately RMB34.2 million, representing a year-on-year decrease of approximately 83.3% compared to the same period in 2018, mainly due to the decrease in revenue and the non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships due to market factors. Excluding the impact of non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships, the unaudited non-IFRS adjusted net profit in 2019 year-on-year decreased by approximately 47.1% compared to 2018, mainly due to the year-on-year decline in revenue as a result of the Policy Risk Factor. For the fourth quarter ended 31 December 2019, we recorded an unaudited non-IFRS adjusted loss of approximately RMB48.3 million, representing a quarter-to-quarter decrease of approximately 354.3% from the unaudited non-IFRS adjusted net profit for the third quarter of 2019. The significant decrease was primarily due to the impact of non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships due to market factors. Excluding the impact of non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships, the unaudited non-IFRS adjusted net profit for the fourth quarter of 2019 increased by 6.7% compared to the third quarter of 2019. The unaudited non-IFRS adjusted net profit for the fourth quarter of 2019 decreased by approximately 445.0% as compared to the fourth quarter of 2018. The greater year-on-year decrease in the fourth quarter was primarily due to the impact of non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships due to market factors. Excluding the impact of non-operating one-off factors such as the decrease in the fair value of financial assets including equity investment partnerships, the unaudited non-IFRS adjusted net profit for the fourth quarter of 2019 decreased by approximately 59.9% compared to the fourth quarter of 2018, mainly due to the higher advertising and promotion expenses in the fourth quarter compared to the same period in 2018 and slightly lower revenue in the fourth quarter compared to the same period in 2018.

In terms of the operating data performance, we recorded a decline in the number of paying players and users during the fourth quarter of 2019 as compared to the fourth quarter of 2018. In particular, the number of paying players decreased by approximately 31.8% from approximately 0.5 million in the fourth quarter of 2018 to approximately 0.3 million in the fourth quarter of 2019. The number of DAUs decreased by approximately 12.4% from approximately 2.9 million in the fourth quarter of 2018 to 2.6 million in the fourth quarter of 2019. The number of MAUs decreased by approximately 32.1% from approximately 10.5 million in the fourth quarter of 2018 to approximately 7.1 million in the fourth quarter of 2019, whereas the ARPPU grew in both Texas Hold’em web-based and mobile games and the mobile versions of other card and board games.

During the fourth quarter of 2019, we successfully held the 2019 “Boyaa” Mahjong Competition in Zigong, the 2019 “Boyaa” Mahjong Competition in Chengdu, the 2019 “Boyaa” Chess League Competition of Nine Universities in Yunnan and the BPT Series Competition – 2019BPT Competition in Europe. “Boyaa” Competitions aim to promote the philosophy of public welfare by way of intellectual and competitive card and board intelligence games, and to guide and encourage our users to actively participate in public welfare undertakings through competitions. We donated RMB37,483 for the public welfare program of students in poverty to the Red Cross Society of China, Shenzhen Branch through holding public welfare



## Management Discussion and Analysis

competitions. Holding public welfare competitions can involve our game users actively participating in the Boyaa games and public welfare undertakings, thereby further enhancing the loyalty of our game users and strengthening the influence of our “Boyaa” game brands. We aim to inherit the traditional culture of Chinese intellectual and competitive card and board games by way of holding public welfare competitions and create a healthy and green environment for intellectual and competitive card and board games, which has brought good experience for a wide range of users of card and board games.

In terms of gaming products, we offered a total of 78 online gaming product portfolios with a total of 11 languages as of 31 December 2019. During 2019, with still remaining focus on research and development (“R&D”) of game products, innovation of gameplay, enrichment of game products and optimisation of user experience, we made efforts to refine our products and diversify our operation in a steady manner to improve the quality of our gaming products while also constantly exploring and trying new operation mode.

### **Outlook for 2020**

In 2020, we will continue to carry out the following work:

- further explore the domestic and overseas operational model of card and board games;
- further explore overseas market for card and board games;
- keep focusing on the R&D and innovation of mobile-based products and devote more efforts to expand other card and board gaming business to continually enrich the contents and rules of the games;
- constantly improve our basic infrastructure and gaming features, and focus on enhancing the experience and service quality we provide to our users; and
- research and develop new competition gaming to enhance and consolidate the loyalty of our players and develop Boyaa into a century-old brand of intellectual and competitive card and board games.

In 2019, we move ahead in the face of challenges. In 2020, the Company will continue to strictly comply with various laws and regulations of the People’s Republic of China (the “PRC”). The Company will still focus on the R&D of online card and board game products and innovation of rules for such products, therefore continuously enriching the variety of game products and optimize the user experience. Moreover, the Company will tap into overseas game market as well as other card and board games business, constantly explore and try new business models, endeavor to develop high-quality card and board games and matches. With the development in the field of online card and board games in a steady manner, the Company continues the journey to forge a century-old brand for Boyaa’s intellectual and competitive card and board games.

### **Year Ended 31 December 2019 Compared to Year Ended 31 December 2018**

#### **Revenue**

Our revenue for the year ended 31 December 2019 amounted to approximately RMB323.8 million, representing a decrease of approximately 28.6% from approximately RMB453.2 million recorded in 2018. The year-on-year decrease was primarily due to the impact of the Apple second Incident from the second quarter of 2017, the effect of the Policy Risk Factor from the second quarter of 2018 and revenue generated from web-based games decreased due to the industry trend of a gradual transfer of web-based games to mobile terminals. For the year ended 31 December 2019, revenue generated from our mobile games and web-based games accounted for approximately 56.2% and 43.8% of our total revenue, respectively, as compared with approximately 62.9% and 37.1%, respectively, for the year ended 31 December 2018.

#### **Cost of revenue**

Our cost of revenue decreased by approximately 30.8% from approximately RMB148.3 million in 2018 to approximately RMB102.7 million in 2019 primarily due to the reduction in commission charges.



## Management Discussion and Analysis

### **Gross profit and gross profit margin**

As a result of the foregoing, our gross profit decreased by approximately 27.5% from approximately RMB305.0 million for the year ended 31 December 2018 to approximately RMB221.2 million for the year ended 31 December 2019.

For the year ended 31 December 2019 and the same period in 2018, our gross profit margin were approximately 68.3% and 67.3%, respectively.

### **Selling and marketing expenses**

Our selling and marketing expenses decreased by approximately 25.3% from approximately RMB27.9 million in 2018 to approximately RMB20.8 million in 2019, accounting for approximately 6.4% of our revenue in 2019, increased from approximately 6.2% in 2018. The year-on-year decrease in selling and marketing expenses was mainly attributable to the decrease in expenses for advertising and promotional activities.

### **Administrative expenses**

Our administrative expenses decreased by approximately 12.4% from approximately RMB134.3 million in 2018 to approximately RMB117.6 million in 2019. The decrease in administrative expenses was mainly due to the control of internal cost and the decrease in employee benefit expenses.

### **Other (losses)/gains – net**

For the year ended 31 December 2019, we recorded other losses (net) of approximately RMB53.6 million, compared to other gains (net) of approximately RMB43.8 million recorded for the same period in 2018. The other (losses)/gains net primarily consisted of fair value changes on investments at fair value through profit or loss and dividend income relating to the non-quoted investments in equity investment partnerships and certain wealth management products we purchased.

### **Finance income – net**

Our finance income (net) was approximately RMB21.8 million in 2019 and approximately RMB18.6 million in 2018. The change was primarily due to an increase in interest income compared to the same period in 2018.

### **Share of result of associates**

We held investments in five associates, namely Shenzhen Fanhou Technology Co., Ltd. (深圳市飯後科技有限公司), Shenzhen HuifuWorld Network Technology Co., Ltd. (深圳市滙富天下網絡科技有限公司), Shenzhen Easething Technology Co., Ltd. (深圳市易新科技有限公司), Shenzhen Jisiwei Intelligent Technology Co., Ltd. (深圳市極思維智能科技有限公司) and Shanghai Allin Network Technology Co., Ltd. (上海傲英網絡科技有限公司) as at 31 December 2019 (31 December 2018: six), all of which were online game or internet technology companies. We recorded a share of loss of associates of approximately RMB4.0 million for the year ended 31 December 2019, compared to a share of profit of associates of approximately RMB2.0 million recorded for the same period in 2018.

### **Income tax expenses**

Our income tax expenses increased by approximately 130.2% from approximately RMB5.7 million for the year ended 31 December 2018 to approximately RMB13.1 million for the year ended 31 December 2019, primarily due to under-provision of income tax expenses of previous years. The effective income tax rate increased from approximately 2.7% in 2018 to approximately 27.9% in 2019.



## Management Discussion and Analysis

### ***Profit attributable to owners of the Company***

As a result of the foregoing, the profit attributable to owners of the Company decreased by approximately 83.2% from approximately RMB201.5 million in 2018 to approximately RMB33.8 million in 2019.

### ***Non-International Financial Reporting Standards ("Non-IFRS") adjusted net profit***

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use unaudited non-IFRS adjusted net profit as an additional financial measure to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. The term "adjusted net profit" is not defined under IFRS. Other companies in the industry which the Group operates in may calculate such non-IFRS items differently from the Group. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the reporting period and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under IFRS.

Our unaudited non-IFRS adjusted net profit for the year ended 31 December 2019 of approximately RMB34.2 million was derived from our unaudited profit of the same period excluding share-based compensation expenses of approximately RMB0.1 million, RMB0.1 million and RMB0.2 million included in cost of revenue, selling and marketing expenses and administrative expenses, respectively. Our unaudited non-IFRS adjusted net profit for the year ended 31 December 2018 of approximately RMB204.8 million was derived from our unaudited profit for the same period excluding share-based compensation expenses of approximately RMB0.7 million, RMB0.9 million and RMB1.7 million included in cost of revenue, selling and marketing expenses and administrative expenses, respectively.

### ***Fourth Quarter of 2019 Compared to Fourth Quarter of 2018***

#### ***Revenue***

Our revenue for the three months ended 31 December 2019 amounted to approximately RMB78.3 million, representing a year-on-year decrease of approximately 7.1% from approximately RMB84.3 million recorded for the same period of 2018. The year-on-year decrease in revenue was primarily due to the impact of the Apple Incident from the second quarter of 2017 and revenue generated from web-based games decreased due to the industry trend of a gradual transfer of web-based games to mobile terminals. For the three months ended 31 December 2019, revenue generated from our mobile games amounted to approximately RMB43.7 million as compared to approximately RMB45.9 million recorded for the same period of 2018, representing a year-on-year decrease of approximately 4.7%.

#### ***Cost of revenue***

Our cost of revenue for the three months ended 31 December 2019 amounted to approximately RMB25.9 million, representing a year-on-year decrease of approximately 11.9% from approximately RMB29.4 million recorded for the same period in 2018. The year-on-year decrease was primarily due to the reduction in commission charges.

#### ***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit decreased by approximately 4.5% from approximately RMB54.9 million for the three months ended 31 December 2018 to approximately RMB52.4 million for the three months ended 31 December 2019. In addition, our gross profit margin increased from approximately 65.1% for the three months ended 31 December 2018 to approximately 66.9% for the three months ended 31 December 2019.

#### ***Selling and marketing expenses***

Our selling and marketing expenses increased from approximately RMB1.1 million recorded for the three months ended 31 December 2018 to approximately RMB5.7 million for the same period of 2019, representing a year-on-year increase of approximately 445.0%, which was mainly attributable to the increase in expenses for advertising and promotional activities.



## Management Discussion and Analysis

### **Administrative expenses**

Our administrative expenses for the three months ended 31 December 2019 amounted to approximately RMB31.1 million, representing a year-on-year decrease of approximately 8.0% from approximately RMB33.8 million recorded for the same period of 2018. The year-on-year decrease was mainly due to the control of internal cost and the decrease in employee benefit expenses.

### **Other losses – net**

For the three months ended 31 December 2019, we recorded other losses (net) of approximately RMB69.8 million, compared to other losses (net) of approximately RMB31.3 million recorded for the same period in 2018. The other losses – net primarily consisted of fair value gains in investment at fair value through profit or loss relating to the non-quoted investments in equity investment partnership and certain wealth management products we purchased.

### **Finance income – net**

Our finance income (net) for the three months ended 31 December 2019 was approximately RMB7.0 million, compared to approximately RMB4.8 million recorded for the same period of 2018, representing a year-on-year increase of approximately 44.6%. The increase was primarily due to an increase in interest income as compared to the same period of 2018.

### **Share of result of associates**

We held investments in five associates, namely Shenzhen Fanhou Technology Co., Ltd. (深圳市飯後科技有限公司), Shenzhen HuifuWorld Network Technology Co., Ltd. (深圳市匯富天下網絡科技有限公司), Shenzhen Easething Technology Co., Ltd. (深圳市易新科技有限公司), Shenzhen Jisiwei Intelligent Technology Co., Ltd. (深圳市極思維智能科技有限公司) and Allin Network Technology Co., Ltd. (上海傲英網絡科技有限公司) as at 31 December 2019 (31 December 2018: six), all of which were online game or internet technology companies. We recorded a share of loss of associates of approximately RMB3.6 million for the three months ended 31 December 2019, compared to a share of profit of associates of approximately RMB0.4 million recorded for the same period in 2018.

### **Income tax credit**

Our income tax credit for the three months ended 31 December 2019 was approximately RMB2.6 million, representing a year-on-year decrease of 86.9% from approximately RMB19.6 million of income tax credit recorded for the same period of 2018.

### **Profit attributable to owners of the Company**

As a result of the foregoing, our losses attributable to owners of the Company for the three months ended 31 December 2019 amounted to approximately RMB48.3 million, representing a year-on-year decrease of approximately 457.0% from our profit attributable to owners of the Company amounted to approximately RMB13.5 million recorded for the same period of 2018.

### **Non-IFRS adjusted net profit**

Our unaudited non-IFRS adjusted net losses for the three months ended 31 December 2019 of approximately RMB48.3 million was derived from our unaudited profit of the same period excluding share-based compensation expenses of approximately RMB0.001 million included in cost of administrative expense. Our unaudited non-IFRS adjusted net profit for the three months ended 31 December 2018 of approximately RMB14.0 million was derived from our unaudited profit for the same period excluding share-based compensation expenses of approximately RMB0.1 million, RMB0.1 million and RMB0.2 million included in cost of revenue, selling and marketing expenses and administrative expenses, respectively.



## Management Discussion and Analysis

### **Liquidity and capital resources**

For the year ended 31 December 2019, we financed our operations primarily through cash generated from our operating activities as well as the net proceeds we received from the global offering completed in November 2013. We intend to finance our expansion, investment and business operations by internal resources and through organic and sustainable growth. We will make investments in line with our capital and investment management policies and strategies.

### **Gearing ratio**

As at 31 December 2019, the Group's gearing ratio (total liabilities divided by total assets) was 11.8% (31 December 2018: 10.4%).

### **Term deposits**

As at 31 December 2019, we had term deposits of approximately RMB388.2 million (31 December 2018: approximately RMB398.9 million), which were mainly denominated in United States dollars ("USD"). The original maturities of the term deposits are over three months and less than one year. The effective interest rate for the term deposits of the Group for the year ended 31 December 2019 was 2.47%.

### **Cash and cash equivalents**

As at 31 December 2019, we had cash and cash equivalents of approximately RMB487.3 million (31 December 2018: approximately RMB296.9 million), which primarily consisted of cash at bank and in hand and short-term bank deposits, which were mainly denominated in Renminbi (as to 77.3%), USD (as to 9.1%) and other currencies (as to 13.6%). We currently do not hedge transactions undertaken in foreign currencies. Due to our persistent efforts in managing our exposure to foreign currencies through constant monitoring to limit as much as possible the amount of foreign currencies held by us, fluctuations in currency exchange rates do not have any material adverse impact on our financial results.

Net proceeds from our initial public offering, after deducting the underwriting commission and other estimated expenses in connection with the offering which the Company received, amounted to approximately HK\$837.9 million. Up to 31 December 2019, a total amount of approximately RMB674.6 million from the net proceeds from our initial public offering had been utilised for the following purposes:

- (a) approximately RMB303.6 million for our marketing activities and business expansion;
- (b) approximately RMB101.2 million for investments in technologies and complementary online games or businesses; and
- (c) approximately RMB269.8 million for research and development activities, working capital and other general corporate purposes, including but not limited to the investment in our technology infrastructure and enhancement of our game portfolio.

As at 31 December 2019, the total amount of the net proceeds from our initial public offering had been fully utilized.

### **Equity investments at fair value through other comprehensive income**

We accounted for equity investments at fair values through other comprehensive income at their respective fair values. As at 31 December 2019, the fair value of our unlisted and listed investments classified as equity investments at fair values through other comprehensive income amounted to approximately RMB45.2 million (31 December 2018: approximately RMB64.5 million). These equity investments at fair value through other comprehensive income mainly consisted of both listed and unlisted equity securities, which are mainly represented by our equity investment in Dalian Zeus Entertainment Co., Ltd. (Shenzhen Stock Exchange: 002354), Xiaomi Corporation (Hong Kong Stock Exchange: 1810) and Qudian Inc. (New York Stock Exchange: QD).

We consider that, none of the other unlisted and listed investments classified as equity investments at fair value through other comprehensive income in our investment portfolio is a significant investment as none of such investments has a carrying amount that accounts for more than 5.0% of our total assets as at 31 December 2019.



## Management Discussion and Analysis

### **Investments at fair value through profit or loss**

As at 31 December 2019, we also recorded investments at fair value through profit or loss amounted to approximately RMB997.4 million (31 December 2018: approximately RMB1,409.0 million), which consisted of non-quoted investments in asset management plans, equity investment partnerships and wealth management products. As at 31 December 2019, the fair values of the investments in asset management plans were determined by an independent professional valuer engaged by the Company using discount cash flows model; the fair values of the investments in equity investment partnerships were determined by an independent professional valuer engaged by the Company using market approach and discount cash flows model; and the fair values of investments in wealth management products, which have an initial term ranging from immediate to 360 days, were determined based on the estimated rate of return of investments. For the year ended 31 December 2019, we recorded fair value losses on investments at fair value through profit or loss of approximately RMB60.4 million (fair value gains for the year ended 31 December 2018: approximately RMB23.8 million).

The investments in wealth management products under investments at fair value through profit or loss were made in line with our treasury and investment policies, after taking into account, among others, the level of risk, return on investment, liquidity and the term to maturity. Generally, the Company has in the past selected wealth management products that are principal guaranteed and relatively low risk products. Prior to making an investment, the Company had also ensured that there remains sufficient working capital for the Company's business needs even after the investments in wealth management products. During the year ended 31 December 2019, each of the investments made by the Company does not constitute a notifiable transaction or a connected transaction of the Company under the Listing Rules. As agreed with the financial institutions, the underlying investment portfolio of the wealth management products of the Company were primarily represented by inter-bank loan market instruments and exchange traded fixed-income financial instruments, such as inter-bank loans, government bonds, central bank bills and similar products, which were highly liquid with a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group to earn an attractive rate of return.

On 28 December 2016, the Group, through Shenzhen Dong Fang Bo Ya Technology Co., Limited (深圳市東方博雅科技有限公司), established a limited partnership namely Jiaxing Boyaa ChunLei Equity Investments Limited Partnership Enterprise ("**Jiaxing Boyaa**") with Shanghai Tailai Tianji Asset Management Co., Limited (上海泰來天濟資產管理有限公司). During the year ended 31 December 2019, the Group's accumulated contribution of RMB300.0 million represented 99.0% of the total capital contribution of Jiaxing Boyaa. The fair value of the investment in Jiaxing Boyaa as at 31 December 2019 was approximately RMB268.2 million. Jiaxing Boyaa is established for carrying out equity investments, venture capital investments and investments in securities, subject to certain investment restrictions. We will continue to closely monitor the performance of Jiaxing Boyaa on an on-going basis.

On 25 October 2018, the Group, through Boyaa On-line Game Development (Shenzhen) Co., Ltd\* (博雅網絡遊戲開發(深圳)有限公司), had subscribed for two RMB wealth management products issued by Industrial and Commercial Bank of China at the amount of RMB200.0 million and RMB128.5 million, respectively (the "**Wealth Management Products**"). As at 31 December 2019, the fair value of the two Wealth Management Products were approximately RMB208.3 million and RMB133.1 million, respectively. The Wealth Management Products were assessed by the Company as very low-risk products. The Board considers that the Wealth Management Products will provide a good short-term investment opportunity for the Group and enhance the funds utilization efficiency and bring extra investment returns. As at 31 December 2019, the bank accounts which holds by the Wealth Management Products had been frozen. For details as to the circumstance leading to the freezing of the accounts, please refer to Note 38 under the section headed "Notes to the Consolidated Financial Statements" of this report and the announcements of the Company dated 1 September 2019, 13 December 2019, 3 January 2020 and 6 January 2020.

We consider that, save for our capital investment in Jiaxing Boyaa as a limited partnership and the subscription of the Wealth Management Products, no other single investment that was designated as investments at fair value through profit or loss in our investment portfolio is a significant investment as none of such investments has a carrying amount that accounts for more than 5.0% of our total assets as at 31 December 2019.

### **Borrowings**

During the year ended 31 December 2019, we did not have any short-term or long-term bank borrowings and we had no outstanding, utilised or unutilised banking facilities.



## Management Discussion and Analysis

### **Capital expenditures**

For the year ended 31 December 2019, our total capital expenditures amounted to approximately RMB13.9 million (2018: approximately RMB8.9 million). The capital expenditure mainly included purchasing equipment, motor vehicles and leasehold improvements of approximately RMB13.9 million (2018: approximately RMB8.9 million), which was funded by using our cash flows generated from our operations.

### **Contractual obligations**

As at 31 December 2019, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of servers and office buildings which amounted to approximately RMB18.1 million (31 December 2018: approximately RMB18.0 million).

Save as disclosed above, the Group did not have other significant outstanding commitments as at 31 December 2019.

### **Contingent liabilities and guarantees**

As at 31 December 2019, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against us.

### **Significant investments and future plans for major investments**

For the year ended 31 December 2019, the Group's investment in Jiaxing Boyaa amounted to RMB300.0 million. Jiaxing Boyaa mainly carries out equity investments and venture capital investments. In addition, the Group had subscribed for the Wealth Management Products, which had an aggregate fair value of approximately RMB341.4 million as at 31 December 2019.

In the future, the Group will continue to identify new opportunities for business development. The Group has not executed any agreement in respect of material acquisitions, investments or capital asset and did not have any other future plans relating to material acquisitions, investments or capital asset as at the date of this report. Nonetheless, if any potential investment opportunity arises in the future, the Group will perform feasibility studies and prepare implementation plans to consider whether it is beneficial to the Group and the shareholders of the Company as a whole.

### **Pledge/charge of the Group's assets**

As at 31 December 2019, none of the Group's assets was pledged or charged.

### **Employees and staff costs**

As at 31 December 2019, we had a total of 282 full-time employees, who are mainly based in China. In particular, 234 employees are responsible for our game development and operation, 35 for game support and 13 for administration and senior management.

We organise and launch various training programs on a regular basis for our employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team bonds. We also provide various incentives, including share-based awards, such as share options and restricted share units ("RSUs") granted pursuant to the share incentive schemes of the Company, and performance-based bonuses to better motivate our employees. As required by PRC laws and regulations, we have also made contributions to various mandatory social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity insurance, and to mandatory housing accumulation funds, for or on behalf of our employees.

For the year ended 31 December 2019, the total staff costs of the Group (including salaries, bonuses, social insurances, provident funds and share incentive schemes) amounted to approximately RMB79.1 million, representing approximately 32.0% of the total expenses of the Group. Pursuant to the post-IPO share option scheme adopted by the Company in



## Management Discussion and Analysis

October 2013 (the “**Post-IPO Share Option Scheme**”) and the pre-IPO share option scheme adopted by the Company in January 2011 and amended in September 2013 (the “**Pre-IPO Share Option Scheme**”) as well as the RSU Scheme adopted by the Company in September 2013 (the “**RSU Scheme**”), there were a total of 7,311,427 share options and 5,589,245 shares underlying the RSUs outstanding and/or granted to a total of 245 senior management members and employees of the Group as at 31 December 2019. There were also 53,048,831 shares underlying the RSUs allowed to be granted under the RSU Scheme which were held by The Core Admin Boyaa RSU Limited as nominee for the benefit of eligible participants pursuant to the RSU Scheme. Further details of the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme and the RSU Scheme will be set out in the section headed “Share Option Schemes and Restricted Share Unit Scheme” in the Directors’ Report in our 2019 annual report to be issued in due course.

### SIGNIFICANT INVESTMENTS

At at 31 December 2019, the Group’s significant investment of Jiaxing Boyaa was classified as investments at fair value through profit or loss. Jiaxing Boyaa mainly carried out equity investments and venture capital investments. As at 31 December 2019, the investee companies held by Jiaxing Boyaa were (1) Shanghai Niwo Information Service Co., Ltd.\* (上海大途弘安信息科技有限公司); (2) Nong Fa Zi Ran (Shanghai) Agricultural Technology Co., Ltd.\* (農法自然(上海)農業科技有限公司); (3) Shandong Zhendong Network Technology Co., Ltd.\* (山東震東網絡科技有限公司); (4) Dalian Jijie Technology Co., Ltd.\* (大連集杰科技有限公司); (5) Yunnan Xiyuan Network Technology Co., Ltd.\* (雲南西元網絡科技有限公司); (6) Shenzhen Gule Time Technology Co., Ltd.\* (深圳市穀樂時光科技有限公司); (7) Shanghai Shandian Technology Co., Ltd.\* (上海閃店聯信息科技有限公司); (8) Centaurs Technologies Co., Ltd. (深圳市人馬互動科技有限公司) (collectively, the “**Investee Companies**”), which are mainly engaged in industries of (i) information technology focusing on, inter alia, the provision of interactive media platforms and business intelligence systems; (ii) agricultural technology, and (iii) online card and board games. Based on the information and report provided by the managing partner of Jiaxing Boyaa, while there may exist uncertainties brought about by the market volatility and policy risk factor in the online card and board game industry, there would be anticipated growth in the information technology industry and agricultural technology industry due to the growing opportunities in relation to interactive media platforms, business intelligence systems and ecological farming technology. The Company is of the view that, as a whole, the investment portfolio of Jiaxing Boyaa would have stable performance given the diversified industries of the Investee Companies. Information of the Investee Company which was a carrying amount for more than 5% of the total assets as at 31 December 2019 are as follows:

### Investee Company

| Name of Investee Company   | Place of establishment | Principal business  | Investment Cost (RMB million) | Equity interests held by Jiaxing Boyaa as at 31 December 2019 | Fair value loss for the year ended 31 December 2019 (RMB million) | Fair value as at 31 December 2019 (RMB million) | Size of fair value relative to total assets of the Group as at 31 December 2019 |
|--|------------------------|---|-------------------------------|---|---|---|---|
|  |                        |   |                               | 5.1 million shares/ 14.07%                                    | 14.8  | 133.4   | 5.6%  |
| Shanghai Niwo Information Service Co., Ltd.*<br>(上海大途弘安信息科技有限公司有限公司) | China                  | Development and operation of interactive media platforms across various high-speed railway stations, coach stations and airports in China | 85.0                          | 5.1 million shares/ 14.07%                                    | 14.8  | 133.4   | 5.6%  |

The fair value of Jiaxing Boyaa is to conduct an independent valuation of each underlying investee company by an independent professional valuer engaged by the Company. Income approach and market approach are mainly adopted in the fair value estimation for the corresponding underlying investee companies.



## Management Discussion and Analysis

Under the income approach, the discounted cash flow (the “DCF”) method is adopted. The DCF method begins with an estimation of the annual cash flows. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the certain underlying investee companies’ projected cash flows. The present values of the estimated cash flows are then added to the present value equivalent of the residual value of the certain underlying investee companies at the end of the discrete projection period to arrive at an estimate of the values.

Under the market approach, the certain underlying investee company is conducted the valuation based on Price-to-Book Value (“P/B”) multiple. The fair value of the certain underlying investee company is determined by using the adjusted P/B multiples of the comparable companies identified, and then multiplied by the its book value at the end of the reporting period, adjusted by lack of marketability discount. When selecting the comparable companies in the valuation, the independent professional valuer considers the following the criteria: (i) the similar business nature with the relevant underlying investee company; and (ii) the same geographical location of business operation as that of the underlying investee company.

As at 31 December 2019, the fair value of Jiaying Boyaa was estimated to be approximately RMB268.2 million. For the year ended 31 December 2019, the fair value loss of the investment in Jiaying Boyaa was approximately RMB44.6 million. We will closely monitor the performance of Jiaying Boyaa on an on-going basis.

As at 31 December 2019, as disclosed in Note 22 under the section headed “Notes to the Consolidated Financial Statements” of this annual report, the Group also held bank wealth management products in the sum of approximately RMB495,547,000. Information of the wealth management products which had a carrying amount for more than 5% of the total assets as at 31 December 2019 (the “Wealth Management Products”) are as follows:

| Issuer of the Wealth Management Product | Name of the Wealth Management Product  | Initial investments (RMB'000) | Fair value gains for the year ended 31 December 2019 (RMB'000) | Fair value as at 31 December 2019 (RMB'000) | Size of fair value relative to total assets of the Group as at 31 December 2019 |
|---|--|-------------------------------|--|---|---|
| Industrial and Commercial Bank of China | Net-worth Wealth Management Product of Industrial and Commercial Bank of China for Corporate – “Tain Li Bao”* (中國工商銀行法人「添利寶」淨值型理財產品) (Product Code: TLB1801)                       | 200,000                       | 8,340  | 208,304                                     | 8.7%  |
| Industrial and Commercial Bank of China | Net-worth RMB Wealth Management Product without Fixed Term of Industrial and Commercial Bank of China for of “e Ling Tong”* (中國工商銀行「e靈通」淨值型法人無固定期限人民幣理財產品) (Product Code: 1701ELT) | 128,500                       | 4,573  | 133,073                                     | 5.6%  |

The Wealth Management Products are classified as low-risk with short investment duration and high liquidity and with reference to the similar investment products in the market and their general rates of return. The Board is of the view that the investments in the Wealth Management Products are fair and reasonable and in the best interests of the Company and its shareholders as a whole. As at 31 December 2019, the bank accounts which holds by the Wealth Management Products had been frozen. For details, as to the circumstance, leading to the freeze of the accounts, please refer to Note 38 under the section headed “Notes to the Consolidated Financial Statements” of this annual report.

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 (the “Reporting Period”). The annual results have been prepared in accordance with International Financial Reporting Standards (the “IFRS”) and audited by ZHONGHUI ANDA CPA Limited, the auditor of the Company. In addition, the annual results have also been reviewed by the audit committee of the Company (the “Audit Committee”).



## Biographies of the Directors and Senior Management

### DIRECTORS

#### *Executive Directors*

**Mr. Dai Zhikang (戴志康)**, aged 38, joined the Board as an executive director on 19 August 2013 and appointed as chairman on 21 September 2018. Mr. Dai has served as a director of Boyaa Shenzhen since January 2008. Mr. Dai served as the general manager of Beijing Comsenz Innovation Technology Co., LLC\* (北京康盛新創科技有限責任公司) from October 2010 to March 2014 and was responsible for its overall strategic planning and general management. Mr. Dai founded Beijing Comsenz Century Technology Co., Ltd\*. (北京康盛世紀科技有限公司) in 2004 and served as its chairman since inception to 2006. Mr. Dai also served as one of the persons-in-charge of Comsenz (Beijing) Networking Corporation Limited\* (康盛創想(北京) 科技有限公司) from 2006 to 2010. Mr. Dai received his bachelor's degree in communications engineering from Harbin Engineering University in June 2004.

**Ms. Tao Ying (陶穎)**, aged 39, joined the Board as an executive Director on 21 September 2018. Before her appointment as an executive Director, Ms. Tao was the person-in-charge of the compliance department of the Group, and was primarily responsible for the handling of the listing compliance issues of the Group, discharging the duties and responsibilities of company secretary, and participating in the internal control, finance, investor relations, and investment project management of the Group. Ms. Tao joined the Company in December 2013 and has worked in the Company for over six years. She has over 10 years of company management experience. Ms. Tao graduated from Anhui University of Finance and Economics in July 2003, with a bachelor's degree in economics in international economics and trade, and also obtained a certificate of graduation with a minor in Accountancy from Anhui University of Finance and Economics. Ms. Tao obtained the Second Level National Certificate of Human Resources Management issued by the Ministry of Human Resources and Social Security, the People's Republic of China in June 2011.

#### *Independent Non-executive Directors*

**Mr. Cheung Ngai Lam (張毅林)**, aged 51, joined the Board as an independent non-executive director on 25 October 2013. Mr. Cheung is currently the chief financial officer of China Zenix Auto International Ltd. (OTC: ZXAIY). From 25 January 2016 to 31 January 2019, Mr. Cheung acted as an independent non-executive director of Asia Television Holding Limited (Stock Code: 707) and from 22 June 2017 to 15 December 2017, Mr. Cheung acted as an independent non-executive director of China Huishan Dairy Holdings Company Limited (Stock Code: 6863). Mr. Cheung was also appointed as an independent non-executive directors of New Provenance Everlasting Holdings Limited (Stock Code: 2326) since 1 February 2020 and Guoan International Limited (Stock Code: 143) on 1 June 2020. Mr. Cheung is a member of the American Institute of Certified Public Accountants and is a Certified Practising Accountant of Australia. Mr. Cheung obtained a bachelor's degree in social sciences from the University of Hong Kong in November 1991 and a master of science (investment management) degree in finance from the Hong Kong University of Science and Technology in November 2002.



## Biographies of the Directors and Senior Management

**Mr. Choi Hon Keung Simon (蔡漢強)**, aged 59, joined the Board as an independent non-executive director on 25 October 2013. Mr. Choi was appointed as an independent non-executive director of China Wan Tong Yuan (Holdings) Limited, a company listed on the Stock Exchange (Stock Code: 6966) and a member of each of its audit committee and nomination committee since 7 September 2017. From 15 August 2011 to 12 September 2017, Mr. Choi served as an independent non-executive director of Kenford Group Holdings Limited, a company listed on the Stock Exchange (Stock Code: 464) and a member of each of its audit committee, remuneration committee and nomination committee. From June 2010 to December 2013, Mr. Choi served as an independent director of China BCT Pharmacy Group, Inc., a company previously listed on the OTC Electronic Bulletin Board (until it was delisted on 28 May 2013). Mr. Choi is also an active Honorary Legal Counsellor to the Hong Kong Electrical Appliances Industries Association since 2016. Mr. Choi joined TCL Multimedia Technology Holdings Limited, a global TV manufacturer and a company listed on the Stock Exchange (Stock Code: 1070) in 2005 and served as the deputy general counsel from 2011 to 2014. Mr. Choi obtained a bachelor degree in laws from Peking University in July 1991, a master degree in laws from London University in November 1992 and a Common Profession Examination Certificate in laws from the University of Hong Kong in June 1994. Mr. Choi was admitted as a Solicitor of the Supreme Court of England and Wales in 1998, a Solicitor of the High Court of Hong Kong in 1997 and a member of the Institute of Linguists in 1996.

**Mr. Sun Zihua (孫自華)**, aged 39, joined the Board as an independent non-executive director on 14 July 2019. Mr. Sun worked as a research and development manager and marketing manager of Kingdee International Software Group Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0268) from July 2002 to June 2005, responsible for the development and marketing of its software. Mr. Sun then served as a channel and marketing manager of Yonyou Software Co., Ltd.\* (用友網絡科技股份有限公司) (formerly known as UFIDA Software Co., Ltd.), a company listed on the Shanghai Stock Exchange (Stock Code: 600588), from July 2005 to November 2011, responsible for the development of its software market in Hong Kong and Asia Pacific region. From December 2011 to March 2013, Mr. Sun was employed as an enterprise system business manager of Oracle Systems Hong Kong Limited, responsible for the sales and implementation of the Enterprise Management System in Hong Kong and Southern China. Since April 2013, Mr. Sun has been a key account manager of the digital factory division of Siemens Industry Software (Shanghai) Co., Ltd.\* (西門子工業軟件(上海)有限公司), a wholly-owned subsidiary of Siemens AG, a company listed in Frankfurt Stock Exchange (Stock Code: SIE). He is responsible for the promotion and operation of digital solutions for the discrete manufacturing industry such as high-tech electronics in Southern China. Mr. Sun obtained a double bachelor's degree in computer science technology and technology English from the University of Science and Technology of China in July 2002.

### SENIOR MANAGEMENT

**Mr. Yu Tong (于彤)**, aged 37, is a Vice President of the Group. Mr. Yu joined the Group in March 2011 and was appointed as a Vice President of the Group in October 2014, and is responsible for local card and board games matters. Prior to joining the Group, Mr. Yu served as an engineer at ZTE Corporation, a company listed on both the Shenzhen Stock Exchange and the Stock Exchange (Shenzhen: 000063, Stock Exchange: 763) from September 2005 to May 2007, and a senior engineer at Tencent Holdings Limited, a company listed on the Stock Exchange (Stock Code: 700) from May 2007 to March 2010. Mr. Yu obtained a bachelor's degree in management from Jilin University in July 2005.

\* The English translations of Chinese names in this annual report, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names.



## Directors' Report

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "Reporting Period").

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the development and operations of online card and board games.

### BUSINESS REVIEW

A fair review of the Group's business and the Group's likely future developments are set out in the section headed "Management Discussion and Analysis – Business Overview and Outlook" of this annual report. There is no important event affecting the Company that has occurred since 31 December 2019.

A detailed analysis of the business performance of the Group for 2019 is set out in the section headed "Management Discussion and Analysis" and the key performance indicators (the "KPIs") of the Group are set out in the table below:

|   | For the three months ended      |                                 | Year-on-Year Change*<br>% |
|---|---------------------------------|---------------------------------|---------------------------|
|   | 31 December 2019<br>(unaudited) | 31 December 2018<br>(unaudited) |                           |
| Paying Players (in thousands)                                       | <b>334</b>                      | 490                             | (31.8)                    |
| • Web-based games   | <b>13</b>                       | 19                              | (31.6)                    |
| • Mobile games  | <b>321</b>                      | 471                             | (31.8)                    |
| Daily Active Users ("DAUs") (in thousands)**                        | <b>2,561</b>                    | 2,923                           | (12.4)                    |
| • Web-based games   | <b>207</b>                      | 180                             | 15.0                      |
| • Mobile games  | <b>2,354</b>                    | 2,743                           | (14.2)                    |
| Monthly Active Users ("MAUs") (in thousands)**                      | <b>7,149</b>                    | 10,532                          | (32.1)                    |
| • Web-based games   | <b>536</b>                      | 772                             | (30.6)                    |
| • Mobile games  | <b>6,613</b>                    | 9,760                           | (32.2)                    |
| Average Revenue Per Paying User ("ARPPU") of Texas Hold'em (in RMB) |                                 |                                 |                           |
| • Web-based games   | <b>960.4</b>                    | 704.8                           | 36.3                      |
| • Mobile games  | <b>135.0</b>                    | 122.0                           | 10.7                      |
| ARPPU of Other Card and Board (in RMB)***                           |                                 |                                 |                           |
| • Web-based games   | <b>18.0</b>                     | 28.8                            | (37.5)                    |
| • Mobile games  | <b>26.4</b>                     | 17.8                            | 48.3                      |

\* Year-on-Year Change % represents a comparison between the current reporting period and the corresponding period last year.

\*\* The numbers of DAUs and MAUs shown above are calculated based on the number of active users in the last calendar month of the relevant reporting period.

\*\*\* The categories of "Fight the landlord" and "Other Games" set out in the previous annual report is combined and referred to as "Other Card and Board" above.

The size of the Group's player base reflects the popularity of the Group's games and the basis for a sustainable growth. The Group measures its player base primarily by DAUs and MAUs. The number of paying players and ARPPU in a specific period are the two most direct factors that affect revenue generated from our online games in such period. Discussion on the trend of the above KPIs is set out in the section headed "Management Discussion and Analysis – Business Overview and Outlook" of this annual report.

The review and discussions included in the section headed "Management Discussion and Analysis" form part of this Directors' Report.



## Directors' Report

### *Principal Risks and Uncertainties*

The Group faces the following principal risks and uncertainties in its operations:

- (a) the major products of the Group, *Texas Hold'em Series* and *Fight the Landlord Series*, accounted for over 75% of the revenue in the past, and any failure to maintain or enhance the performance of these games or other adverse development affecting these games could adversely affect the business and results of operations of the Group;
- (b) the Group may not be able to continuously enhance its existing games and player experience and launch high-quality new games and services, which will materially and adversely affect its ability to continue to retain existing players and attract new players;
- (c) the Group utilises major social networking websites, online application stores and third-party payment vendors to generate a substantial portion of revenues and if the Group is unable to maintain a good relationship with these distribution and payment channels or if the use of these distribution or payment channels is adversely affected by any factor such as new measures imposed or intervention by any regulators or third parties, the business and results of operations of the Group will be adversely affected;
- (d) the Group relies on the Contractual Arrangements to control and obtain the economic benefits from Boyaa Shenzhen which may not be as effective in providing operational control as direct ownership;
- (e) if the PRC government finds the Contractual Arrangements established for operating the online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in the variable interest entity, being Boyaa Shenzhen;
- (f) there are uncertainties about the interpretation of PRC laws and regulations relating to contractual arrangements. On 15 March 2019, the Foreign Investment Law of the People's Republic of China (hereinafter referred to as the "**Foreign Investment Law 2019**") was adopted by the Second Session of the Thirteenth National People's Congress of the People's Republic of China and will take effect on 1 January 2020. Once promulgated, it will replace the Law of the People's Republic of China on Sino-foreign Equity Joint Ventures, the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures and the Law of the People's Republic of China on Foreign-funded Enterprises (collectively referred to as the "**former Foreign Investment Law**"). On 26 December 2019, the State Council promulgated the Regulations on the Implementation of Foreign Investment Law of the People's Republic of China, which became effective on 1 January 2020 and replace the Regulations on the Implementation of the Law of the People's Republic of China on Sino-foreign Equity Joint Ventures, the Interim Regulations on the Term of Sino-foreign Equity Joint Ventures, Detailed Rules for the Implementation of the Law of the People's Republic of China on Foreign-funded Enterprises and Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures. According to Foreign Investment Law 2019 and the Regulations on the Implementation of the Foreign Investment Law of the People's Republic of China, the existing foreign-funded enterprises established under the former Foreign Investment Law before the promulgation of Foreign Investment Law 2019 may adjust their existing organizational form or structure, and go through relevant procedures for change of registration in accordance with relevant laws such as the Company Law of the People's Republic of China and the Partnership Enterprise Law of the People's Republic of China, or maintain the original organizational form or structure within five years from the effective date of the Foreign Investment Law 2019.



## Directors' Report

The Foreign Investment Law 2019 stipulates four forms of foreign investment. However, the Foreign Investment Law 2019 does not specify the form of the contractual arrangements for foreign investment. Since the means of foreign investment stipulated in the Foreign Investment Law 2019 include "investment in accordance with laws, administrative regulations or other forms stipulated by the State Council", it cannot be ruled out that the future laws, administrative regulations and the provisions of the State Council may stipulate contractual arrangements as one of the means of foreign investment. Whether the contractual arrangement will be identified as foreign investment in the future or whether it will be regarded as a violation of the requirements for foreign investment access, there is still some uncertainty. And the Company may bear significant compliance costs in the future; and

- (g) facing challenges presented by the extensive law and regulation of various aspects of online game business in the PRC and overseas markets and there is no assurance that such laws and regulations would not apply to the Group or be interpreted in ways that could affect the Group's business.

The Group mainly adopted the following measures to manage its aforementioned major risk areas:

- manage the Group's growing size and expanding business, including controlling costs, establishing sufficient internal controls, attracting and retaining talent as well as maintaining corporate culture;
- continue to offer new and high-quality games, enhance existing games to attract and retain players as well as increase player activity level and monetisation;
- maintain and expand the Group's game distribution platforms to deepen penetration in existing markets and expand into new markets within and outside of the PRC;
- maintain close contact with the relevant PRC regulatory authorities, and ensure sound and effective operation of the Group in compliance with the Contractual Arrangements and applicable laws and regulations; and
- adopt internal procedures to ensure regulatory compliance of the Group's business operations in both China and overseas markets. The Group's in-house legal department is responsible for keeping abreast of the regulatory environment and developments in local laws and regulations to support the Group's business expansion in its existing and future target markets.

In addition, the Group's internal controls and risk management systems are explained in the section headed "Corporate Governance Report – Internal Controls and Risk Management" of this annual report.

For further details of the risks associated with our business and our industry and the uncertainties which we face, please refer to the section headed "Risk Factors" in the prospectus of the Company dated 31 October 2013 (the "**Prospectus**"). In particular, for further details of the risks associated with our Contractual Arrangements, please refer to the section headed "Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks" below.

### **Environmental Protection Initiatives**

The Group is principally engaged in the development and operations of online card and board games. Due to the nature of the Group's business, the Group does not have any significant environmental issues (such as issues surrounding emission of pollutants, discharges into water and land, and generation of hazardous and non-hazardous waste, which are more often seen in certain particular industries, such as construction, restaurants and manufacturing etc.) in its operations. In addition, as advised by the Group's PRC legal advisers, there are no relevant environmental laws and regulations that are applicable to the Group's businesses and operations which would have a significant impact on the Group. The management of the Company considers that the Group's businesses and operations would not cause a significant negative impact on the environment and natural resources. Accordingly, the Group has not formulated any environmental policy in writing since its incorporation.



## Directors' Report

Nevertheless, the Group always implements environmentally-friendly practices to operate and manage its businesses. For instance, the Group has implemented water-saving, electricity-saving, stationery-saving, paper-saving and energy-saving initiatives, etc. within the Group by enforcing good practices in the use of water, electricity, stationery and paper and in the maintenance of lighting and electric equipment to ensure that they are kept in good and proper condition to maximise efficiency. Furthermore, the Company also actively addresses and encourages employees to participate in social environmental protection activities. For further details regarding environmental protection activities of the Group, please refer to the section headed "Environmental, Social and Governance Report – Environmental Activities" of this annual report.

### **Legal Compliance**

During the year ended 31 December 2019, the Group had complied with relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits from relevant regulatory authorities for the operations of the Group in China. In particular, during the year ended 31 December 2019, the Group has complied with and completed all relevant filing requirements within the required time limit for the online games that the Group offered within the PRC with the Ministry of Culture pursuant to the Interim Measures on Administration of Online Games promulgated by the Ministry of Culture of the PRC on 3 June 2010.

In addition, as advised by the Group's PRC legal advisers about the important updates in laws and regulations, the Group has fully complied with the Notice of the Ministry of Culture on the Strengthening of the Regulation on Promotional Activities of Online Games issued by the Ministry of Culture on 19 March 2015, and its online games do not constitute gambling activities prohibited under, the Notice on Regulating Operation Order of Online Games and Inspection of Gambling via Online Games jointly issued by the Ministry of Public Security, the Ministry of Culture, the Ministry of Industry and Information Technology and the General Administration of Press and Publication of the PRC on 25 January 2007 and the Notice on Strengthening the Administration of Online Game Virtual Currency jointly issued by the Ministry of Culture and the Ministry of Commerce of the PRC on 4 June 2009, and the Group has not conducted any of the prohibited acts thereunder in its operation of online games and has not offered or promoted its online games as a tool for gambling.

### **Relationship with Employees, Customers and Suppliers**

#### **Employees**

As at 31 December 2019, the Group had a total of 282 full time employees, who are mainly based in China. In particular, 234 employees are responsible for game development and operation, 35 for game support, and 13 for administration and senior management. The Group provides its employees with ample career development choices and opportunities of advancement. The Group also organises and launches various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building. The Group also provides various incentives, including without limitation, providing performance-based bonuses and share-based awards, to better motivate its employees. For further details regarding employees and staff costs and the emolument policy of the Group, please refer to the sections headed "Management Discussion and Analysis – Employees and staff costs" and "Directors' Report – Emolument Policy" of this annual report.



## Directors' Report

### Customers

The Group utilises game distribution platforms, such as Facebook, Apple Inc.'s App Store, Huawei, Vivo, Oppo and Google play, etc., to reach the Group's ultimate customers, being individual online game players, by providing games on the websites or online application stores operated by the game distribution platforms. Game players may access the web-based games by entering the relevant websites or the mobile games by downloading the relevant games onto their mobile devices. The Group maintained a close relationship with most of these distribution platforms.

The Group collects payments from the sales of its in-game virtual items directly from the payment collection channels of the Group. The Group established business relationship with a number of payment collection channels as its business expands. As at 31 December 2019, the Group used 190 payment collection channels.

For further details regarding our major customers, please refer to the section headed "Directors' Report – Major Customers and Suppliers" of this annual report.

### Suppliers

The major suppliers of the Group mainly comprise data centres that provide server hosting and leasing services. The Group has established server and other equipment procurement policies to manage and monitor its procurement procedures and costs. To ensure the quality and safety of the Group's network infrastructure, the Group usually purchases servers and procures services from qualified and reliable suppliers. The Group selects server rental service providers based on the historical business relationships with the Group, the compatibility of their products with the Group's requirements, prices, customer service and reputation. The Group would also evaluate its suppliers on a quarterly basis based on the performance of their products and services and will replace unqualified suppliers in a timely manner. The Group generally maintained a long-term relationship with these data centres. During the year ended 31 December 2019, there has been no termination of business relationship with the Group's major suppliers which may cause a significant adverse effect on the overall business operation of the Group. For further details regarding our major suppliers, please refer to the section headed "Directors' Report – Major Customers and Suppliers" of this annual report.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019 and the Company's and the Group's financial affairs as at that date are set out in the consolidated financial statements on pages 84 to 154.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 13 July 2020 to Thursday, 16 July 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 10 July 2020.



# Directors' Report

## DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the “**Dividend Policy**”). A summary of the Dividend Policy is disclosed as below.

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the articles of association of the Company and all applicable laws and regulations and factors, including, inter alia, the Group's financial results, cash flow situation, business conditions and strategies, future operations and earnings and capital requirements and expenditure plans, interests of shareholders of the Company, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

The Dividend Policy will be reviewed by the Board as appropriate when needed.

## RESERVES

Changes to the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2019 are set out in Note 33(b) to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in Note 16 to the consolidated financial statements.

## SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are set out in Note 31 and Note 34 to the consolidated financial statements and the paragraph headed “Share Option Schemes and Restricted Share Unit Scheme” of this annual report, respectively.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2019 are set out in Note 19 to the consolidated financial statements.

## DONATIONS

Donations made by the Group during the year ended 31 December 2019 amounted to RMB100,873 (2018: Nil).

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report.



## Directors' Report

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, the Company repurchased 6,246,000 ordinary shares of US\$0.00005 each of the Company ("Shares") on the Stock Exchange at an aggregate consideration of HK\$7,798,820 pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting held on 6 June 2019. Details of the repurchases are summarised as follows:

| Date of repurchase | Price per Share |            | Number of ordinary shares of USD0.00005 each | Total consideration HKD |
|--------------------|-----------------|------------|--|-------------------------|
|                    | Highest HKD     | Lowest HKD |  |                         |
| 8 April 2019       | 1.92            | 1.90       | 651,000                                      | 1,247,050               |
| 9 April 2019       | 1.92            | 1.92       | 1,000  | 1,920                   |
| 19 June 2019       | 1.37            | 1.33       | 445,000                                      | 605,910                 |
| 20 June 2019       | 1.40            | 1.40       | 30,000                                       | 42,000                  |
| 16 July 2019       | 1.37            | 1.36       | 37,000                                       | 50,620                  |
| 18 July 2019       | 1.38            | 1.37       | 257,000                                      | 354,550                 |
| 4 September 2019   | 1.13            | 1.10       | 793,000                                      | 878,930                 |
| 10 September 2019  | 1.22            | 1.20       | 233,000                                      | 281,780                 |
| 17 September 2019  | 1.23            | 1.21       | 174,000                                      | 212,560                 |
| 18 September 2019  | 1.22            | 1.20       | 120,000                                      | 146,380                 |
| 20 September 2019  | 1.21            | 1.20       | 956,000                                      | 1,152,090               |
| 27 September 2019  | 1.14            | 1.13       | 216,000                                      | 245,140                 |
| 30 September 2019  | 1.18            | 1.14       | 253,000                                      | 294,740                 |
| 4 October 2019     | 1.14            | 1.11       | 141,000                                      | 158,970                 |
| 9 October 2019     | 1.18            | 1.14       | 313,000                                      | 369,100                 |
| 18 October 2019    | 1.17            | 1.15       | 308,000                                      | 358,280                 |
| 3 December 2019    | 1.08            | 1.07       | 200,000                                      | 214,650                 |
| 4 December 2019    | 1.06            | 1.05       | 961,000                                      | 1,016,160               |
| 6 December 2019    | 1.07            | 1.07       | 157,000                                      | 167,990                 |
| Total:             |                 |            | 6,246,000                                    | 7,798,820               |

Except for the 4,825,000 shares repurchased in September, October and December 2019, all the repurchased 1,421,000 shares of the Company have been cancelled during the year ended 31 December 2019 and the issued share capital of the Company has been reduced by the nominal value of the repurchased shares. The premium paid on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board with a view to benefiting the Shareholders as a whole by enhancing the earnings per share of the Company.

Except as disclosed above, the Group did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2019.

### SHARE OPTION SCHEMES AND RESTRICTED SHARE UNIT SCHEME

#### Post-IPO Share Option Scheme

On 23 October 2013, the Post-IPO Share Option Scheme of the Company was approved and adopted by the Shareholders.

The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on 12 November 2013, being the date on which the trading of the Shares on the Stock Exchange commenced (the "Listing Date"). Accordingly, as



## Directors' Report

at 31 December 2019, the remaining life of the Post-IPO Share Option Scheme is approximately three years and ten months. After such period no further options will be granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Post-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

The purpose of the Post-IPO Share Option Scheme is to incentivise and reward the employees (whether full time or part-time) or directors of members of the Group or associated companies of the Company (the "**Eligible Persons**") for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Pursuant to the Post-IPO Share Option Scheme, the Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Post-IPO Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an Eligible Person.

The maximum number of Shares which may be issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes (including but not limited to the Pre-IPO Share Option Scheme, as defined below, the "**Other Schemes**") of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**") (being 73,755,912 Shares). Therefore, as at 31 December 2019, the total number of Shares which may be issued on the exercise of options granted and to be granted under the Post-IPO Share Option Scheme and any Other Schemes is 25,179,558, representing approximately 3.49% of the issued share capital of the Company as at the date of this annual report. Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme and any Other Schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Post-IPO Share Option Scheme and any Other Schemes of the Company to Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time. Unless approved by the Shareholders in a general meeting, the total number of Shares issued and to be issued upon the exercise of the options granted to each Eligible Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Post-IPO Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any terms and conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such terms and conditions. Such terms and conditions may include any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised. Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option.



## Directors' Report

The exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (iii) the nominal value of the Shares.

Details of the options granted under the Post-IPO Share Option Scheme and details of the vesting period, exercise period, the exercise price and the movements in options during the year ended 31 December 2019 are set out in the section headed "Details of the options granted and outstanding under the Post-IPO Share Option Scheme and the Pre-IPO Share Option Scheme and the RSUs granted and outstanding under the RSU Scheme as at 31 December 2019" below. Details of movements in the options and the value of the options granted under the Post-IPO Share Option Scheme are set out in Note 34 to the consolidated financial statements.

During the year ended 31 December 2019, no option has been granted or agreed to be granted under the Post-IPO Share Option Scheme, nor has any option been cancelled.

### ***Pre-IPO Share Option Scheme***

On 7 January 2011, the Pre-IPO Share Option Scheme of the Company was approved and adopted by the Board, which was subsequently amended on 17 September 2013.

The purpose of the Pre-IPO Share Option Scheme is to enable the Company to grant pre-IPO options to employees, officers and directors of or consultant to any member of the Group (the "**Eligible Participants**") as recognition and acknowledgement of the contributions that such Eligible Participants have made or may make to the Group or any affiliates. An Eligible Participant whom an option is granted in accordance with the terms of the Pre-IPO Share Option Scheme (the "**Grantee**") is not required to pay for the grant of any option under the Pre-IPO Share Option Scheme.

The maximum number of Shares in respect of which options may be granted at any time under the Pre-IPO Share option Scheme will be such number of shares as the Remuneration Committee may approve from time to time. No Grantee shall be entitled to any rights, interest or benefits attached to the underlying Shares of the options granted under the Pre-IPO Share Option Scheme unless and until the option in respect of such Shares has been vested on him and exercised in accordance with the terms of the Pre-IPO Share Option Scheme. There is no maximum entitlement for each Eligible Participant under the rules of the Pre-IPO Share Option Scheme although no Eligible Participant under the Pre-IPO Share Option Scheme has been granted options exceeding 1.0% of the issued share capital of the Company.

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Pre-IPO Share Option Scheme.

An option shall not be exercisable on any date unless such terms and conditions (including, without limitation, any performance target(s) or condition(s) upon which the exercise of the option shall be conditional), if any, are satisfied and to the extent that the option has vested.



## Directors' Report

The exercise price in respect of any option granted under the Pre-IPO Share Option Scheme shall be fixed with reference to the fair market value of the underlying Share on the date upon which the option is granted, and subject to any adjustments, shall be:

- (i) the latest valuation price per Share certified by an independent valuer engaged by the Company for such purpose prior to the date of grant of the relevant option; or
- (ii) the latest price per Share at which the Company has issued any Shares prior to the date of grant of the relevant option, unless the Company otherwise determines and so notifies the Grantee in writing.

Notwithstanding any other provision of the rules of the Pre-IPO Share Option Scheme or any notice of grant or the terms on which any option is granted or vested, any Shares allotted upon the exercise of the option in accordance with the Pre-IPO Share Option Scheme will, in all cases, be held by a nominee as designated by the Company (the "**Nominee**") for the Grantees. The Company has appointed The Core Trust Company Limited as the trustee (the "**Trustee**") to assist with the administration and vesting of the options granted pursuant to the Pre-IPO Share Option Scheme and The Core Admin Boyaa Option Limited, a company wholly-owned by the Trustee, as the Nominee to hold the Shares to be allotted to the Grantees upon the exercise of the option in accordance with the Pre-IPO Share Option Scheme.

An option, whether vested or unvested, shall automatically lapse and expire with no rights and benefits on the day falling on the eighth anniversary of the date of vesting of the relevant option or such earlier date as the Board may have determined prior to the grant of the relevant option.

All of the options granted under the Pre-IPO Share Option Scheme were granted in four batches in 2011 and 2012. As at 31 December 2019, options to subscribe for an aggregate of 68,998 Shares (representing approximately 0.01% of the total issued share capital of the Company as at the date of this annual report) have been granted by the Company and remained outstanding under the Pre-IPO Share Option Scheme. There were one option holder. Details of movements in the options under the Pre-IPO Share Option Scheme are set out in Note 34 to the consolidated financial statements.

Details of the options granted under the Pre-IPO Share Option Scheme and details of the vesting period, exercise period, the exercise price and the movements in options during the year ended 31 December 2019 are set out in the section headed "Details of the options granted and outstanding under the Post-IPO Share Option Scheme and the Pre-IPO Share Option Scheme and the RSUs granted and outstanding under the RSU Scheme as at 31 December 2019" below.

No further options have been granted under the Pre-IPO Share Option Scheme after the Listing Date. However, all options granted under the Pre-IPO Share Option Scheme are exercisable over an eight-year period from the date of vesting. Therefore, given that the last batch of options under the Pre-IPO Share Option Scheme were granted on 1 November 2012 and the options so granted shall vest over a period of four years after the date of grant, as at 31 December 2019, the remaining life of the Pre-IPO Share Option Scheme in respect of outstanding options is approximately four years and ten months.

No options have been cancelled during the year ended 31 December 2019.



## Directors' Report

### **Restricted Share Unit Scheme**

On 17 September 2013, the RSU Scheme of the Company was approved and adopted by the Board.

The purpose of the RSU Scheme is to incentivise directors, senior management and employees for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

Persons eligible to receive RSUs under the RSU Scheme are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of the Company or any of its subsidiaries ("**RSU Eligible Persons**"). The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme although no RSU Eligible Person has been granted RSUs exceeding 1.5% of the issued share capital of the Company.

The RSU Scheme will be valid and effective for a period of eight years, commencing from the date of the first grant of the RSUs, being 4 March 2013 (unless it is terminated earlier in accordance with its terms) (the "**RSU Scheme Period**"). As at 31 December 2019, the remaining life of the RSU Scheme is approximately one year and two months.

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the RSU Trustee (as defined below) for the purpose of the RSU Scheme from time to time.

The Board may not grant any RSUs to any RSU Eligible Person in any of the following circumstances:

- (i) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless the Board determines otherwise;
- (ii) where granting the RSUs would result in a breach by the Company, its subsidiaries or any of their directors of any applicable securities laws, rules or regulations; or
- (iii) where such grant of RSUs would result in breach of the limit set out in the rules of the RSU Scheme. Under such rules, the maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules) shall be such number of shares held by the trustee for the purpose of the RSU Scheme from time to time.

The Board can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the letter granting such RSUs. Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, the Board will send a vesting notice ("**Vesting Notice**") to each of the relevant participant in the RSU Scheme (the "**RSU Participants**"). The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved. The RSUs that have been granted are subject to vesting as described in the section headed "Details of the options granted and outstanding under the Post-IPO Share Option Scheme and the Pre-IPO Share Option Scheme and the RSUs granted and outstanding under the RSU Scheme as at 31 December 2019 – (c) Consideration paid for the grant of RSUs and the vesting period of the RSUs granted under the RSU Scheme" below and once the RSUs vest and the corresponding shares transferred to the RSU Participants, the RSU Participants are not restricted from dealing in the shares under the rules of the RSU Scheme.



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The Company has appointed The Core Trust Company Limited as the trustee (the “**RSU Trustee**”) to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme. The Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise. The shares underlying the RSU Scheme are held by a nominee company, The Core Admin Boyaa RSU Limited (the “**RSU Nominee**”). Dividends that are attributable to the underlying shares of the RSU Scheme will be paid to the RSU Nominee as the registered shareholder of such shares. The dividends attributable to the underlying shares of RSUs already granted will be held by the RSU Nominee for the benefit of the RSU Participants which will be distributed to them in accordance with the corresponding number of underlying shares that each RSU Participant is entitled based on RSUs already granted to such RSU Participant at the time of distribution of the dividends. The remaining dividends represent dividends attributable to shares in the reserve pool of underlying shares where RSUs have not yet been granted (the “**RSU Pool**”). The dividends in respect of shares in the RSU Pool will first be used to settle any outstanding fees and expenses of the RSU Scheme payable by the Company to the trustee of the RSU Scheme and the remaining portion of such dividends will be transferred to the shareholders immediately prior to the adoption of the RSU Scheme, namely Boyaa Global Limited, Emily Technology Limited, Comsenz Holdings Limited and Sequoia Capital and its affiliates, in the proportion of their then respective shareholding interests in the Company. Similarly, any bonus shares distributed will be treated in the same manner as dividends save that the bonus shares will not be used to pay any outstanding fees and expenses of the RSU Scheme.

The Company has put in place the following mechanism for the exercise of the voting rights attached to the shares held by the RSU Nominee at the Company's general meetings:

- (i) In respect of each general meeting of the Company, the Company will send a voting instruction form to each of the RSU Participants to solicit votes from such RSU Participants. The voting instruction form will be very similar to the proxy form for the relevant general meeting and will set out a general description of the resolutions proposed at the general meeting and will allow the RSU Participants to select whether to vote for or against each of the resolutions. A copy of the relevant corporate communication concerning matters to be proposed at such general meeting (such as shareholders' circular and annual report) will also be made available to each of the RSU Participants so that the RSU Participants will have all relevant information for considering the relevant resolutions as if they were shareholders of the Company. Each RSU Participant shall be entitled to one vote for each of the shares underlying the RSUs granted to him or her, whether vested or unvested. The RSU Participants will be required to return the signed and completed voting instruction form with the administrator of the RSU Scheme (the “**Administrator**”) (currently being Ms. Tao Ying) by the deadline stated in the voting instruction form, which deadline shall be no less than 7 days before the time for holding the relevant general meeting and the RSU Participants will be given at least 7 days to consider how they would like to cast their votes. In so far as the duly signed and completed voting instructions from the RSU Participants have been received by the Administrator prior to the proposed deadline, the Administrator will calculate the total of votes for and against each proposed resolution and will instruct the RSU Nominee accordingly, and the RSU Nominee shall vote only in accordance with the instructions of the Administrator which reflect the instructions of the RSU Participants.



## Directors' Report

- (ii) For those RSU Participants who fail to return a duly signed and completed voting instructions form to the Administrator prior to the proposed deadline as set out in the voting instruction form, the Administrator will not give any instruction to the RSU Nominee so that no votes will be cast for such shares underlying the RSUs granted and the RSU Nominee shall abstain from voting with respect to such shares underlying the RSUs granted.
- (iii) For the shares in the RSU Pool in respect of which no RSUs have been granted, the Administrator will not give any instruction to the RSU Nominee so that no votes will be cast for those shares and the RSU Nominee shall also abstain from voting with respect to such shares.

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to the Company. Upon receipt of an exercise notice, the Board may decide at its absolute discretion to:

- (a) direct and procure the RSU Trustee to, within a reasonable time, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which the Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or
- (b) pay, or direct and procure the RSU Trustee to, within a reasonable time, pay, to the RSU Participant in cash an amount which represents the value of the Shares underlying the RSUs exercised on or about the date of exercise (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) less any exercise price (where applicable) and after deduction of any tax, levies, stamp duty and other charges applicable to the sale of any Shares to fund such payment and in relation thereto.

As at 31 December 2019, an aggregate of 58,248,617 Shares were held by the RSU Trustee, representing approximately 8.07% of the Shares in issue as at the date of this annual report. As at 31 December 2019, RSUs in respect of an aggregate of 5,589,245 Shares, representing approximately 0.77% of the Shares in issue as at the date of this annual report, had been granted to 245 RSU Participants pursuant to the RSU Scheme. Details of the movements in the RSUs under the RSU Scheme are set out in Note 34 to the consolidated financial statements.

Details of the RSUs granted under the RSU Scheme and details of the vesting period and the movements in RSUs during the year ended on 31 December 2019 are set out in the section headed "Details of the options granted and outstanding under the Post-IPO Share Option Scheme and the Pre-IPO Share Option Scheme and the RSUs granted and outstanding under the RSU Scheme as at 31 December 2019" below.

During the year ended 31 December 2019, no RSU has been granted or agreed to be granted under the RSU Scheme, nor has any RSU been cancelled.



## Directors' Report

### Details of the options granted and outstanding under the Post-IPO Share Option Scheme and the Pre-IPO Share Option Scheme and the RSUs granted and outstanding under the RSU Scheme as at 31 December 2019

| Name of option holder/<br>Grantees of RSU            | Position held<br>with the Group | Nature           | Number of<br>shares<br>represented<br>by options<br>or RSUs<br>at 1 January<br>2019 | Date of grant    | Granted<br>during<br>the period | Exercise<br>price | Exercised<br>during<br>the period | Weighted<br>average<br>closing price<br>of shares<br>immediately<br>before the<br>dates on<br>which the<br>options were<br>exercised | Lapsed<br>during<br>the period | Number of<br>shares<br>represented<br>by options<br>or RSUs at<br>31 December<br>2019 |            |        |   |
|--|---------------------------------|------------------|---|------------------|---------------------------------|-------------------|-----------------------------------|--|--------------------------------|---|------------|--------|---|
| <b>Director of the Company</b>                       |                                 |                  |   |                  |                                 |                   |                                   |  |                                |   |            |        |   |
| Ms. Tao Ying   | Executive Director              | Options          | 85,000  | 7 September 2015 | -                               | -                 | -                                 | -  | -                              | 85,000  |            |        |   |
|  |                                 |                  | 50,000  | 12 March 2015    | -                               | -                 | -                                 | -  | -                              | 50,000  |            |        |   |
|  |                                 | <b>Sub-total</b> | 135,000   |                  | -                               |                   | -                                 |  | -                              | 135,000   |            |        |   |
| <b>Employees and previous employees of the Group</b> |                                 |                  |   |                  |                                 |                   |                                   |  |                                |   |            |        |   |
|  |                                 | Options          | 11,888  | 1 February 2011  | -                               | USD0.05           | -                                 | -  | 11,888                         | -   |            |        |   |
|  |                                 |                  | 2,749   | 2 March 2012     | -                               | USD0.10           | -                                 | -  | -                              | 2,749   |            |        |   |
|  |                                 |                  | 66,249  | 1 July 2012      | -                               | USD0.15           | -                                 | -  | -                              | 66,249  |            |        |   |
|  |                                 | RSUs             | 8,157,429   | 7 September 2015 | -                               | HK\$3.108         | -                                 | -  | 1,000,000                      | 7,157,429   |            |        |   |
|  |                                 |                  | 1,152,428   | 1 February 2011  | -                               | -                 | 1,088,723                         | -  | -                              | 63,705  |            |        |   |
|  |                                 |                  | 30,586  | 2 March 2012     | -                               | -                 | 8,384                             | -  | -                              | 22,202  |            |        |   |
|  |                                 |                  | 86,408  | 1 July 2012      | -                               | -                 | -                                 | -  | -                              | 86,408  |            |        |   |
|  |                                 |                  | 6,171,548   | 4 March 2013     | -                               | -                 | 991,738                           | -  | 7,319                          | 5,172,491   |            |        |   |
|  |                                 |                  | 290,643   | 12 March 2015    | -                               | -                 | 95,155                            | -  | 1,049                          | 194,439   |            |        |   |
|  |                                 |                  | <b>Sub-total</b>  | 15,969,928       |                                 | -                 |                                   | 2,184,000  |                                | 1,020,256   | 12,765,672 |        |   |
|  |                                 |                  | <b>Total</b>  |                  |                                 |                   |                                   |  |                                |   |            |        |   |
|  |                                 |                  |   |                  | Options                         | 11,888            | 1 February 2011                   | -  | USD0.05                        | -   | -          | 11,888 | - |
| 2,749  | 2 March 2012                    | -                |   |                  |                                 | USD0.10           | -                                 | -  | -                              | 2,749   |            |        |   |
| 66,249   | 1 July 2012                     | -                |   |                  |                                 | USD0.15           | -                                 | -  | -                              | 66,249  |            |        |   |
| RSUs   | 8,242,429                       | 7 September 2015 |   |                  | -                               | HK\$3.108         | -                                 | -  | 1,000,000                      | 7,242,429   |            |        |   |
|  | 1,152,428                       | 1 February 2011  |   |                  | -                               | -                 | 1,088,723                         | -  | -                              | 63,705  |            |        |   |
|  | 30,586                          | 2 March 2012     |   |                  | -                               | -                 | 8,384                             | -  | -                              | 22,202  |            |        |   |
|  | 86,408                          | 1 July 2012      |   |                  | -                               | -                 | -                                 | -  | -                              | 86,408  |            |        |   |
|  | 6,171,548                       | 4 March 2013     |   |                  | -                               | -                 | 991,738                           | -  | 7,319                          | 5,172,491   |            |        |   |
|  | 340,643                         | 12 March 2015    |   |                  | -                               | -                 | 95,155                            | -  | 1,049                          | 244,439   |            |        |   |
|  | <b>Total</b>                    | 16,104,928       |   |                  |                                 | -                 |                                   | 2,184,000  |                                | 1,020,256   | 12,900,672 |        |   |



## Directors' Report

**(a) Consideration paid for the grant of options, the vesting period and the exercise period of the options granted under the Post-IPO Share Option Scheme**

Each holder of the options granted under the Post-IPO Share Option Scheme as referred to in the table above are required to pay an amount of HK\$1.00 for the grant of each of the options under the Post-IPO Share Option Scheme.

Subject to the satisfactory performance of the option holders, the options granted to each of the option holders shall be vested in accordance with the vesting schedule as follows:

- (i) as to 25% of the options granted on the date ending 12 months after the date of grant;
- (ii) as to 25% of the options granted on the date ending 24 months after the date of grant; and
- (iii) as to the remaining 50% of the options granted, on a monthly basis starting from the 25th month after the date of grant in 24 monthly equal lots.

Each option granted under the Post-IPO Share Option Scheme has a ten-year exercise period commencing from the date of grant.

**(b) Consideration paid for the grant of options, the vesting period and the exercise period of the options granted under the Pre-IPO Share Option Scheme**

The holders of the options granted under the Pre-IPO Share Option Scheme as referred to in the table above are not required to pay for the grant of any option under the Pre-IPO Share Option Scheme.

Subject to the satisfactory performance of the option holders, the options granted to each of the option holders shall be vested in accordance with vesting schedule as follows:

- (i) as to 25% of the aggregate number of Shares underlying the option on the date ending 12 months after the date of grant of such option;
- (ii) as to 12.5% of the aggregate number of Shares underlying the option on the date ending 18 months after the date of grant of such option;
- (iii) as to 12.5% of the aggregate number of Shares underlying the option on the date ending 24 months after the date of grant of such option; and
- (iv) as to the remaining 50% of the aggregate number of Shares underlying the option, on a monthly basis starting from the 25th month after the date of grant of such option in 24 monthly equal lots.

Each option granted under the Pre-IPO Share Option Scheme has an eight-year exercise period.

**(c) Consideration paid for the grant of RSUs and the vesting period of the RSUs granted under the RSU Scheme**

The grantees of the RSUs granted under the RSU Scheme as referred to in the table above are not required to pay for the grant of any RSU under the RSU Scheme.

RSUs that were granted before 4 March 2013 were granted to replace certain options granted under the Pre-IPO Share Option Scheme and have the same vesting period as the options granted under the Pre-IPO Share Option Scheme. See the preceding sub-paragraph "(b) Consideration paid for the grant of options, the vesting period and the exercise period of the options granted under the Pre-IPO Share Option Scheme" above.



## Directors' Report

For the RSUs granted on 4 March 2013, they shall (unless the Company shall otherwise determine and so notify such grantees in writing) vest as follows:

- (i) 25% of the RSUs on the date ending 12 months after 30 September 2013;
- (ii) 12.5% of the RSUs on the date ending 18 months after 30 September 2013;
- (iii) 12.5% of the RSUs ending 24 months after 30 September 2013; and
- (iv) as to the remaining 50% of the RSUs, on a monthly basis starting from the 25th month after 30 September 2013 in 24 monthly equal lots.

For the RSUs granted on 12 March 2015, they shall vest as follows:

- (i) as to 25% of the RSUs on the date ending 12 months after the date of grant of the RSUs;
- (ii) as to 25% of the RSUs on the date ending 24 months after the date of grant of the RSUs;
- (iii) as to 12.5% of the RSUs on the date ending 30 months after the date of grant of the RSUs;
- (iv) as to 12.5% of the RSUs on the date ending 36 months after the date of grant of the RSUs; and
- (v) as to the remaining 25% of the RSUs, on a monthly basis starting from the 37th month after the date of grant in 12 monthly equal lots,

and shall be subject to the Company and the relevant grantee meeting or satisfying the annual and half-yearly performance target or review immediately preceding such vesting.

### DIRECTORS

The directors of the Company during the Reporting Period were:

#### *Directors*

| <b>Name</b>  | <b>Position</b>                                       |
|--|---|
| Mr. Dai Zhikang                                    | Chairman of the Board and Executive Director          |
| Ms. Tao Ying                                       | Executive Director and Acting Chief Executive Officer |
| Mr. Cheung Ngai Lam                                | Independent Non-executive Director                    |
| Mr. Choi Hon Keung Simon                           | Independent Non-executive Director                    |
| Mr. You Caizhen ( <i>retired on 14 July 2019</i> ) | Independent Non-executive Director                    |
| Mr. Sun Zihua ( <i>appointed on 14 July 2019</i> ) | Independent Non-executive Director                    |



## Directors' Report

During the year ended 31 December 2019, one of our independent non-executive directors, Mr. You Caizhen retired as an independent non-executive director of the Company with effect from 14 July 2019. Upon his retirement as an independent non-executive director, Mr. You ceased to be a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. You confirmed that there was no disagreement with the Board and there was no matter relating to his resignation that needed to be brought to the attention of the Stock Exchange and the Shareholders.

Mr. Sun Zihua was appointed as an independent non-executive director and the member of Audit Committee, Nomination Committee and Remuneration Committee with effect from 14 July 2019. For details of Mr. Sun's biography, please refer to the section headed "Biographies of the Directors and Senior Management" of this annual report. As at the date of this annual report, Mr. Sun does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

In accordance with articles 16.2 and 16.18 of the articles of association of the Company, a director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the number of directors who are due to retire by rotation at such meeting. Mr. Sun Zihua, who has been appointed as a Director on 14 July 2019, will retire and will not offer himself for re-election at the forthcoming annual general meeting ("**AGM**").

In accordance with article 16.18 of the articles of association of the Company, at every annual general meeting of the Company, one-third of the directors for the time being (or, if the number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation. Accordingly, Mr. Dai Zhikang and Mr. Choi Hon Keung Simon shall retire by rotation at the AGM are eligible, for re-election at the AGM.

None of Mr. Sun Zihua, Mr. Dai Zhikang and Mr. Choi Hon Keung Simon has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

The biographical details of the directors and senior management of the Company are set out in the section headed "Biographies of the Directors and Senior Management" of this annual report.

### **DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

Save as disclosed in this annual report, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company and/or any entity connected with a director had a material interest, whether directly or indirectly, and no contract of significance, whether for the provision of services or otherwise, between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the year or at any time during the Reporting Period.



## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the directors or the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

#### (a) Interests of Directors and Chief Executive of the Company

| Name of Director/<br>Chief Executive | Name of company | Capacity/<br>Nature of interest  | Number of<br>underlying<br>shares <sup>(1)</sup> | Approximate<br>percentage of<br>shareholding <sup>(4)</sup> |
|--------------------------------------|-----------------|----------------------------------|--|---|
| Mr. Dai Zhikang <sup>(2)</sup>       | The Company     | Founder of a discretionary trust | 36,500,000 (L)                                   | 5.06%   |
| Ms. Tao Ying <sup>(3)</sup>          | The Company     | Beneficial owner                 | 135,000 (L)                                      | 0.02%   |

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Visioncode Holdings Limited, a company wholly-owned by a trust named the Visioncode Trust (the "Dai Family Trust"), directly holds the entire issued share capital of Comsenz Holdings Limited. The Dai Family Trust is a discretionary trust established by Mr. Dai Zhikang (as the settlor) and the discretionary beneficiaries of which include Mr. Dai Zhikang and his children. Accordingly, Mr. Dai Zhikang is deemed to be interested in the 36,500,000 shares held by Comsenz Holdings Limited.
- (3) Ms. Tao Ying is interested in 50,000 underlying Shares in respect of the RSUs granted by Company under the RSU Scheme and 85,000 underlying Shares in respect of the options granted by the Company under the Post-IPO Share Option Scheme.
- (4) As at 31 December 2019, the Company had 721,751,301 issued shares.

#### (b) Interests in associated corporations of the Company

| Name of subsidiary | Name of shareholder | Registered capital | Approximate<br>percentage<br>of interest |
|--------------------|---------------------|--------------------|--|
| Boyaa Shenzhen     | Mr. Dai Zhikang     | RMB200,000         | 2.00%                                    |

Save as disclosed above, as at 31 December 2019, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.



## Directors' Report

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following persons (other than the directors or the chief executive of the Company) have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of shareholder                                | Name of company | Nature of interest                   | Number of Shares or securities held <sup>(1)</sup> | Approximate percentage of interest <sup>(6)</sup> |
|--|-----------------|--------------------------------------|--|---|
| Mr. Zhang Wei <sup>(2)</sup>                       | The Company     | Founder of a discretionary trust     | 246,237,474 (L)                                    | 34.12%  |
| Cantrust (Far East) Limited <sup>(3)</sup>         | The Company     | Trustee of a trust                   | 282,737,474 (L)                                    | 39.17%  |
| Rustem Limited <sup>(3)</sup>                      | The Company     | Nominee for another person           | 282,737,474 (L)                                    | 39.17%  |
| Chunlei Investment <sup>(2)</sup>                  | The Company     | Interest in a controlled corporation | 246,237,474 (L)                                    | 34.12%  |
| Boyaa Global Limited <sup>(3)</sup>                | The Company     | Beneficial owner                     | 176,572,474 (L)                                    | 24.46%  |
| Emily Technology Limited <sup>(3)</sup>            | The Company     | Beneficial owner                     | 69,665,000 (L)                                     | 9.65%   |
| Visioncode Holdings Limited <sup>(4)</sup>         | The Company     | Interest in a controlled corporation | 36,500,000 (L)                                     | 5.06%   |
| The Core Trust Company Limited <sup>(5)(7)</sup>   | The Company     | Trustee of a trust                   | 58,365,138 (L)                                     | 8.09%   |
| The Core Admin Boyaa RSU Limited <sup>(5)(7)</sup> | The Company     | Nominee for another person           | 58,248,617 (L)                                     | 8.07%   |
| TCT (BVI) Limited <sup>(5)(7)</sup>                | The Company     | Other                                | 58,365,138 (L)                                     | 8.09%   |

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Chunlei Investment Limited ("**Chunlei Investment**"), a company wholly-owned by a trust named the Chunlei Trust (the "**Zhang Family Trust**"), directly holds the entire issued share capital of each of Boyaa Global Limited and Emily Technology Limited. The Zhang Family Trust is a discretionary trust established by Mr. Zhang Wei (as the settlor) and the discretionary beneficiaries of which include Mr. Zhang Wei and his children. Accordingly, Mr. Zhang Wei is deemed to be interested in the 176,572,474 shares and 69,665,000 shares held by each of Boyaa Global Limited and Emily Technology Limited, respectively.
- (3) Cantrust (Far East) Limited, the trustee of the Zhang Family Trust, holds the entire issued share capital of Chunlei Investment through Rustem Limited (as nominee for Cantrust (Far East) Limited). Chunlei Investment in turn holds the entire issued share capital of each of Boyaa Global Limited and Emily Technology Limited. The Zhang Family Trust is a discretionary trust established by Mr. Zhang Wei (as the settlor) and the discretionary beneficiaries of which include Mr. Zhang Wei and his children. Accordingly, each of Mr. Zhang Wei, Cantrust (Far East) Limited and Chunlei Investment are deemed to be interested in the shares held by each of Boyaa Global Limited and Emily Technology Limited, respectively.
- (4) Visioncode Holdings Limited, a company wholly-owned by the Dai Family Trust, directly holds the entire issued share capital of Comsenz Holdings Limited. Accordingly, Visioncode Holdings Limited is deemed to be interested in the 36,500,000 shares held by Comsenz Holdings Limited.



## Directors' Report

- (5) *The Core Trust Company Limited, being the RSU Trustee, indirectly holds the entire issued share capital of The Core Admin Boyaa RSU Limited as the RSU nominee, which holds 58,248,617 shares underlying the RSUs (as defined below) granted and to be granted under the RSU Scheme (as defined below) for the benefit of eligible participants pursuant to the RSU Scheme through its wholly-owned subsidiary TCT (BVI) Limited.*
- (6) *As at 31 December 2019, the Company had 721,751,301 issued shares.*
- (7) *Pursuant to Section 336 of the SFO, the shareholders are required to file a disclosure of interests form when certain criteria are fulfilled. When a shareholding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless several criteria have been fulfilled, therefore a shareholder's latest shareholding in the Company may be different from the shareholding filed with the Stock Exchange.*

Save as disclosed above, as at 31 December 2019, no persons (other than the directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

### MAJOR CUSTOMERS AND SUPPLIERS

The game players make payments through various payment collection channels. Therefore, the ultimate customers of the Group are individual game players. The Group collects payments from the sales of its in-game virtual items directly from the payment collection channels of the Group and not directly from individual game players. For the year ended 31 December 2019, the five largest payment collection channels contributed a total of approximately 46.8% of the Group's total revenue. Currently, Google is the largest payment collection channel, contributed approximately 20.0% of the Group's total revenue, for the same period. The average length of business relationship with the five largest payment collection channels is approximately 9 years. In particular, the length of business relationship with Google, the largest payment collection channel, is approximately 8 years.

The credit terms of trade receivables granted to our major customers, i.e. the platforms and third party payment vendors, are generally 30 to 120 days, which is generally in line with those granted to other customers. Ageing analysis based on recognition date of the trade receivables, net of allowance, at the balance sheet date is as follows:

|               | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---------------|-----------------|-----------------|
| 0 - 60 days   | 17,189          | 16,968          |
| 61 - 90 days  | 157             | 117             |
| 91 - 180 days | 173             | 410             |
| Over 180 days | 482             | 870             |
|               | <b>18,001</b>   | 18,365          |



## Directors' Report

As at 31 December 2019, trade receivables past due but not impaired were approximately RMB3,465,000 (2018: approximately RMB4,425,000). These related to a number of independent platforms and third party payment vendors which the Group has not encountered any credit defaults in the past and they are assessed to be financially trustworthy. As a result, the directors of the Company consider that these overdue amounts can be recovered. For details of the Group's trade receivables, please refer to Note 23 to the consolidated financial statements of this annual report.

Data centres that provide server hosting and leasing services are the major suppliers of the Group. During the Reporting Period, the purchases from the Group's five largest suppliers accounted for approximately 41.3% of the Group's total purchases from all of the suppliers for the same period and the purchases from the Group's largest supplier included there in amount to approximately 10.1%.

None of our directors, any of their close associates or any Shareholders that, to the knowledge of our directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest payment collection channels and the five largest suppliers during the year ended 31 December 2019.

### AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019. There is no disagreement between the Board and the Audit Committee regarding accounting treatment adopted by the Company.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

### EMOLUMENT POLICY

The directors of the Company believe that maintaining a stable and motivated employee force is critical to the success of the Group's business. As a fast growing company, the Company is able to provide its employees with ample career development choices and opportunities of advancement. The Company organises various training programs on a regular basis for its employees to enhance their knowledge of online game development and operation, improve time management and internal communications and strengthen team building. The Company also provides various incentives to better motivate its employees. In addition to providing performance-based bonuses and share-based awards, the Company offers unsecured, interest-free housing loans to employees with good performance.

For the purpose of the promotion of efficiency and fairness among the directors of the Company, as well as incentivising their performance, the Company links the remunerations of the directors to the Company's operation and financial performance with reference to the audited financial report at the end of the year.



## Directors' Report

### EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 12, Note 13 and Note 37 to the consolidated financial statements.

### PERMITTED INDEMNITIES

Pursuant to the articles of association of the Company, the directors and other officers of the Company are entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Such permitted indemnity provisions are currently in force and were in force during the year ended 31 December 2019.

### TAX RELIEF AND EXEMPTION

The Company is not aware that holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

### PUBLIC FLOAT

As at the date of this annual report and based on the information that is publicly available to the Company and to the knowledge of the directors of the Company, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

### EVENTS AFTER THE REPORTING PERIOD

After the outbreak of the novel coronavirus (“**COVID-19**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluated its impact on the financial position and operating results of the Group. As at the date on which the publication of this annual report is approved, the Board was not aware of any material adverse impact on the financial statement as a result of the COVID-19 outbreak.

### DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company’s distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium, other reserves and accumulated loss totaling approximately RMB306,730,000 (2018: approximately RMB479,299,000).

### CHANGE OF AUDITOR

On 9 April 2020, the Board has appointed ZHONGHUI ANDA CPA Limited (“**ZHONGHUI ANDA**”) as the new auditor of the Company with immediate effect from 9 April 2019, to fill the vacancy following the resignation of Pan-China (H.K.) CPA Limited (“**Pan-China**”) and to hold office until the conclusion of the next annual general meeting of the Company. Save as disclosed herein, there were no other changes in auditor of the Company during the past three years.

The consolidated financial statements for the year ended 31 December 2019 have been audited by ZHONGHUI ANDA, who will retire at the AGM and being eligible, offer themselves for re-appointment.



## Directors' Report

### BANK AND OTHER LOANS

The Group did not have any short-term or long-term bank borrowings or other loans as at 31 December 2019.

### RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save as disclosed under the section "Share Option Schemes and Restricted Share Unit Scheme" of this annual report, at no time during the year ended 31 December 2019 was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

### DIRECTORS' AND CONTROLLING SHAREHOLDERS, INTERESTS IN COMPETING BUSINESS

Mr. Zhang Wei, a controlling shareholder of the Company who resigned as a director of the Company on 21 September 2018, is one of the three directors of HuifuWorld (a company in which Boyaa Shenzhen holds approximately 14.7% interest), which is mainly engaged in the development and operation of Internet Protocol television and Android Set-Top-Box related channels and platforms and lottery. Mr. Dai Zhikang holds approximately 4.3% equity interest in and is also one of the four directors of Blingstorm Entertainment Ltd. (晶合思動(北京)科技有限公司) (a company in which Boyaa Shenzhen holds approximately 9.4% equity interest), which is mainly engaged in provision of mobile games (other than online card and board games) in the PRC.

Save as disclosed above, as at the date of this annual report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective close associates had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Further, Mr. Zhang Wei, Boyaa Global Limited and Emily Technology Limited, each a controlling Shareholder, being the covenantors (the "**Covenantors**"), has entered into a deed of non-competition (the "**Deed of Non-Competition**") in favour of the Company on 25 October 2013, pursuant to which each of the Covenantors has jointly and severally, unconditionally and irrevocably undertaken with the Company that he/it will not (except through the Group and any investment or interests held through the Group), and will procure his/its close associates (other than any member of the Group) not to, directly or indirectly (including through nominees), carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, any business which is in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Prospectus.

The independent non-executive directors of the Company have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2019. Each of the Covenantors has provided to the Company a written confirmation in respect of his/its compliance with the Deed of Non-Competition.



## Directors' Report

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 12 November 2013, the Company's Shares were listed on the Main Board of the Stock Exchange. A total of 177,014,000 ordinary Shares with nominal value of USD0.00005 each of the Company were issued at HK\$5.35 per share for a total of approximately HK\$947.0 million. The net proceeds raised by the Company from the abovementioned global offering are approximately HK\$837.9 million.

As at 31 December 2019, the total amount of the net proceeds from our initial public offering had been fully utilized.

### CONNECTED TRANSACTIONS

#### *Continuing Connected Transactions*

Reference is made to the section headed "History, Reorganisation and Corporate Structure – Contractual Arrangements" in the Prospectus. The Company, as a foreign investor, is prohibited from holding equity interest in Boyaa Shenzhen, the PRC operating entity of the Company, which conducts the online games business and is considered to be engaged in the provision of value-added telecommunications services as a result of the operations of our websites. As a result, the Group, through a wholly-owned subsidiary of the Company, Boyaa On-line Game Development (Shenzhen) Co., Ltd. ("**Boyaa PRC**"), has entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Boyaa Shenzhen such that the Group can conduct its business operations indirectly in the PRC through Boyaa Shenzhen while complying with applicable PRC law and regulations. The Contractual Arrangements are designed to provide the Group with effective control over the financial and operational policies of Boyaa Shenzhen and, to the extent permitted by PRC law and regulations, the right to acquire the equity interests in and/or the assets of Boyaa Shenzhen through Boyaa PRC. As the Group operates its online games business through Boyaa Shenzhen, which is controlled by Mr. Zhang Wei and the Group does not hold any direct equity interest in Boyaa Shenzhen, the Contractual Arrangements were entered into on 15 May 2013 pursuant to which all material business activities of Boyaa Shenzhen are instructed and supervised by the Group, through Boyaa PRC, and all economic benefits and risks arising from the business of Boyaa Shenzhen are transferred to the Group. Further details of the reasons for using the Contractual Arrangements are set out in the section headed "Directors' Report – Contractual Arrangements – Reasons for Contractual Arrangements" below.

The Contractual Arrangements currently in effect comprise of six agreements, namely (a) the Exclusive Business Consulting and Service Agreement, (b) the Business Operating Agreement, (c) the Exclusive Option Agreement, (d) the Equity Pledge Agreement, (e) the Intellectual Properties License Agreement and (f) the Loan Agreement, which were entered into between or amongst Boyaa Shenzhen, Boyaa PRC, Mr. Zhang Wei and/or Mr. Dai Zhikang (as the case may be).

Mr. Zhang Wei is a substantial Shareholder of the Company. He is therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Boyaa Shenzhen is owned as to 98% by Mr. Zhang Wei and hence an associate of Mr. Zhang Wei. Boyaa Shenzhen is therefore a connected person of the Company under Rule 14A.07(4) of the Listing Rules. In addition, Mr. Dai Zhikang is an executive director and therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules.



## Directors' Report

### *Contractual Arrangements*

#### *Reasons for Contractual Arrangements*

The Group is primarily engaged in the development and operation of online card and board games business and is considered to be engaged in the provision of value-added telecommunications services as a result of the operations of the websites of the Group. The Group conducts online games business through a PRC operating entity, Boyaa Shenzhen. According to the Administrative Rules for Foreign Investments in Foreign-Invested Telecommunications Enterprises issued by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016, foreign investors are prohibited to hold more than 50% of the equity interest in an entity conducting online games business and are restricted to conduct value-added telecommunications services, including internet content provision services. Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP license from the appropriate telecommunications authorities in order to carry on any commercial internet content provision operations in China. Boyaa Shenzhen has obtained the requisite ICP license for the operations of the Group. Therefore, in order for the Group to be able to carry on its online games business in China in compliance with the applicable PRC laws and regulations, the Group entered into the Contractual Arrangements with Boyaa Shenzhen through an indirect wholly-owned subsidiary, Boyaa PRC, pursuant to which the Group will be able to assert management control over the operations of, and enjoy all economic benefits of, Boyaa Shenzhen. In addition, the Group will be able to consolidate Boyaa Shenzhen's financial results in the results of the Company under IFRS as if it was a wholly-owned subsidiary of the Company.

In addition, foreign investor wishing to acquire any equity interest in a value-added telecommunications business in the PRC must demonstrate (i) a good track record and (ii) experience in providing value-added telecommunications services overseas (the "**Qualification Requirement**"). As advised by the Company's PRC legal advisers, as of 31 December 2019, there were no applicable PRC laws, regulations or rules that provide clear guidance or interpretation on the Qualification Requirement, and there was no update to the Qualification Requirement. Therefore, in order for the Company to be able to carry on its business in China, the Group has taken steps to build up its track record of overseas telecommunications business operations in an attempt to comply with the Qualification Requirement, so as to be qualified to acquire the entire equity interest of Boyaa Shenzhen when the restrictions on the percentage of foreign ownership in telecommunications services and on foreign ownership in online culture products and business are lifted. In particular, the Company has offered casual games on the Company's overseas website, [www.boyaa.com.hk](http://www.boyaa.com.hk), with a view to building up its track record of overseas telecommunications business operations. Moreover, the Group has completed equity investments in Shenzhen Coalaa Network Technology Co., Ltd. (深圳市卡拉網絡科技有限公司), Shenzhen Fengxunsheng Technology Co., Ltd. (深圳市豐訊盛科技有限公司), Shenzhen Guanhai Technology Co., Ltd. (深圳市觀海科技有限公司) and Function Technology Co., Ltd. (collectively referred to as "**Coalaa**"), through a series of agreements and at a total consideration of RMB5.0 million. Coalaa is an online card and board game developer and operator, with Texas Poker (Professional Version), which is offered as both a web-based game and a mobile game and in 10 language versions, including Arabian, Indonesian and Thai, as its important games. The Group envisages that through such acquisition, the Group can further complement its game portfolio and it will be able to further expand its market share in overseas market, and in particular, the Thai market.

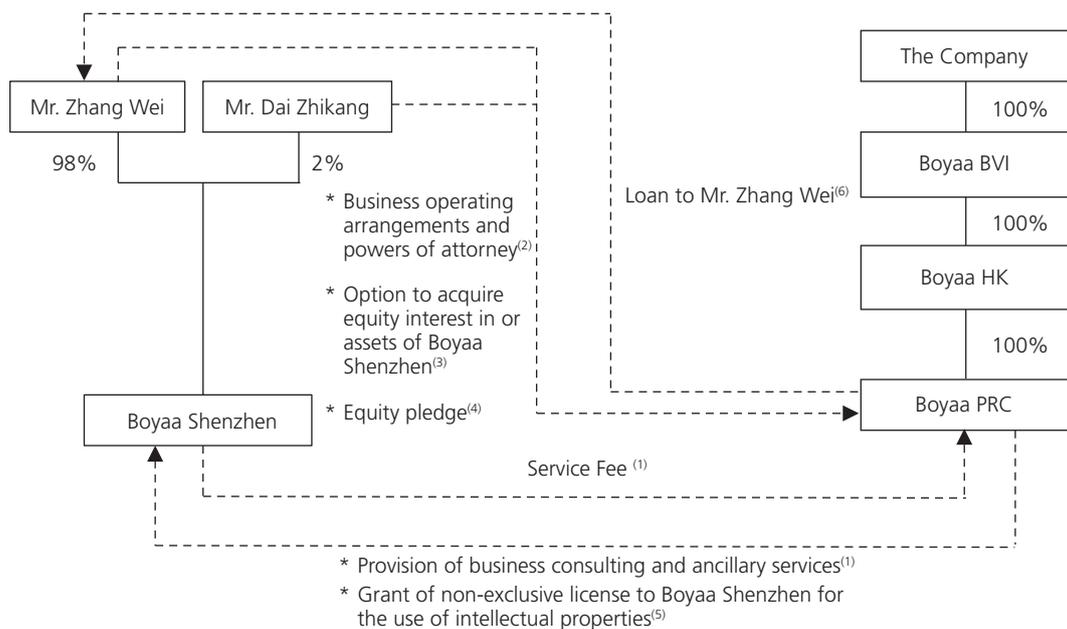


## Directors' Report

Boyaa Shenzhen is significant to the Group as it holds certain licenses and permits that are essential to the operation of the business of the Group, including ICP License and Internet Culture Business License. In addition, Boyaa Shenzhen also holds certain intellectual property rights, including software copyrights, trademarks, patents and domain names. The revenue and the total asset value of Boyaa Shenzhen subject to the Contractual Arrangements amounted to approximately RMB54.1 million for the year ended 31 December 2019 and approximately RMB977.9 million as at 31 December 2019, respectively.

### Illustrative diagram of, and agreements underlying, the Contractual Arrangements

The following simplified diagram illustrates the flow of economic benefits from Boyaa Shenzhen to the Group stipulated under the Contractual Arrangements:



#### Notes:

- (1) Please refer to the paragraph headed "Exclusive Business Consulting and Service Agreement" below for details.
- (2) Please refer to the paragraph headed "Business Operating Agreement" below for details.
- (3) Please refer to the paragraph headed "Exclusive Option Agreement" below for details.
- (4) Please refer to the paragraph headed "Equity Pledge Agreement" below for details.
- (5) Please refer to the paragraph headed "Intellectual Properties License Agreement" below for details.
- (6) Please refer to the paragraph headed "Loan Agreement" below for details.



## Directors' Report

### (a) *Exclusive Business Consulting and Service Agreement*

Boyaa PRC and Boyaa Shenzhen entered into the Exclusive Business Consulting and Service Agreement (as restated and amended) on 15 May 2013, pursuant to which Boyaa Shenzhen agreed to engage Boyaa PRC as its exclusive consultant and service provider. Accordingly, Boyaa PRC shall provide advice and recommendations to Boyaa Shenzhen in respect of (i) consulting services in respect of the management and operations of Boyaa Shenzhen, (ii) consulting services in respect of the standardisation of the operating system of Boyaa Shenzhen, (iii) consulting services in respect of market research and sales and marketing strategies, (iv) technical consulting services in respect of hardware, database and server operations, (v) the maintenance and upgrade of the online games operated by Boyaa Shenzhen, (vi) research and development of online game software and maintenance of the system, (vii) renting of certain office equipment (such as computers) and other operating equipment (save for relevant servers for the operations of the online games), (viii) branding, marketing and other promotion, (ix) training in respect of online game technology and operations related matters, (x) the grant of the use of all intellectual properties owned by Boyaa PRC pursuant to the terms of the Intellectual Properties License Agreement, (xi) human resources support, including but not limited, staff secondment arrangement and (xii) other service areas as agreed between the parties.

In addition, pursuant to the Exclusive Business Consulting and Service Agreement, without the prior written approval from Boyaa PRC, Boyaa Shenzhen shall not enter into any transactions (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) the disposal, transfer or acquisition of any assets, (ii) the provision of any guarantee or create any encumbrances relating to its assets, (iii) the entering into of any material contracts and (iv) any merger, acquisition or restructuring of Boyaa PRC.

Pursuant to the Exclusive Business Consulting and Service Agreement, Boyaa Shenzhen shall pay to Boyaa PRC a service fee that equals to the profit before taxation of Boyaa Shenzhen, after off-setting the prior-year loss (if any), working capital requirements, expenses and tax of Boyaa Shenzhen in any given year, and Boyaa PRC shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of Boyaa Shenzhen. Boyaa Shenzhen has agreed to pay the service fee within one month after each quarter end for the services provided in the preceding quarter.

The Exclusive Business Consulting and Service Agreement is for a term of ten years commencing from 15 May 2013, the date of the agreement, with the payment of the service fees for the first quarter of 2013 by Boyaa Shenzhen to Boyaa PRC taking retrospective effect from January 2013, and may be automatically extended for another ten years at the discretion of Boyaa PRC. The Exclusive Business Consulting and Service Agreement may be terminated by Boyaa PRC by giving Boyaa Shenzhen a 30-day prior written notice of termination and shall be terminated upon the transfer of the entire equity interests in and/or the transfer of all assets of Boyaa Shenzhen to Boyaa PRC or its designated person pursuant to the Exclusive Option Agreement. Boyaa Shenzhen is not contractually entitled to terminate the Exclusive Business Consulting and Service Agreement with Boyaa PRC.



## Directors' Report

### **(b) Business Operating Agreement**

Boyaa PRC, Mr. Zhang Wei, Mr. Dai Zhikang and Boyaa Shenzhen entered into the Business Operating Agreement (as restated and amended) on 15 May 2013, and as further amended and supplemented by the supplemental agreement dated 22 October 2013, pursuant to which Mr. Zhang Wei and Mr. Dai Zhikang agreed to enter into powers of attorney to unconditionally and irrevocably authorise any individual(s) appointed by Boyaa PRC to exercise all of their rights and powers as shareholders of Boyaa Shenzhen. Each of the individuals appointed by Boyaa PRC must be one of the directors of Boyaa Interactive (Hong Kong) Limited ("**Boyaa HK**"), Boyaa Holdings Limited ("**Boyaa BVI**") or the Company who is a PRC citizen, and cannot be Mr. Zhang Wei, Mr. Dai Zhikang or any of their associates. Such individuals act on Mr. Zhang Wei's and Mr. Dai Zhikang's behalf on all matters pertaining to Boyaa Shenzhen and, to the extent permissible under applicable PRC laws, exercise all of their respective rights as a shareholder thereof, including (i) rights to attend shareholders' meeting, (ii) rights to exercise voting rights in a shareholders' meeting, (iii) rights to sign minutes of the meetings, (iv) rights to file documents with relevant governmental authorities or regulatory bodies, (v) rights to appoint directors, supervisors and senior management, (vi) right to decide on any acquisition or disposal of the equity interest of Mr. Zhang Wei and Mr. Dai Zhikang in Boyaa Shenzhen or the winding-up or dissolution of Boyaa Shenzhen, (vii) right to instruct directors and senior management of Boyaa Shenzhen to act in accordance with all instructions of Boyaa PRC or its designated person and (viii) such other shareholders' rights as stipulated under applicable PRC laws, rules and regulations and the articles of association of Boyaa Shenzhen. In addition, it is also agreed that Boyaa PRC or its designee shall have the right to obtain and review the operating statistics, business data, financial information, employee information and other information relevant to the operations and business of Boyaa Shenzhen. Pursuant to the Business Operating Agreement, in the event that Boyaa PRC or its designee decided to voluntarily wind-up or dissolve Boyaa Shenzhen, each of Mr. Zhang Wei and Mr. Dai Zhikang undertakes that he will ensure and procure the execution of all related documents and completion of all relevant procedures required for completing the liquidation and winding-up process and that Boyaa PRC shall be transferred, at nil consideration, all remaining assets of Boyaa Shenzhen upon liquidation.

The Business Operating Agreement is for an indefinite term commencing from 15 May 2013, the date of the agreement, until it is terminated (i) by Boyaa PRC by giving Boyaa Shenzhen a 30-day prior written notice of termination, or (ii) upon the transfer of the entire equity interests held by either Mr. Zhang Wei and/or Mr. Dai Zhikang in, and/or the transfer of all assets of, Boyaa Shenzhen to Boyaa PRC or its designated person pursuant to the Exclusive Option Agreement. Boyaa Shenzhen is not contractually entitled to terminate the Business Operating Agreement with Boyaa PRC. Under the Business Operating Agreement, each of Mr. Zhang Wei and Mr. Dai Zhikang warranted to Boyaa PRC that appropriate arrangements have been made to protect Boyaa PRC's interests in the event of his death, bankruptcy or divorce to avoid any practical difficulties in enforcing the Business Operating Agreement.



## Directors' Report

### **Power of attorney**

On 15 May 2013, each of Mr. Zhang Wei and Mr. Dai Zhikang has executed a power of attorney, as amended and supplemented by the clarification to the power of attorney on 22 October 2013, pursuant to the terms of the Business Operating Agreement. Under each of the power of attorney, each of Mr. Zhang Wei and Mr. Dai Zhikang irrevocably confirmed that the power of attorney shall remain in full force and effect within the term of the Business Operating Agreement unless Boyaa PRC requests to replace the appointed designee of Boyaa PRC under the power of attorney. Pursuant to the power of attorney, each of the shareholders of Boyaa Shenzhen agrees to authorise any individual(s) appointed by Boyaa PRC to exercise all of their rights and powers as shareholders of Boyaa Shenzhen. Each of the individuals appointed by Boyaa PRC must be one of the directors of Boyaa HK, Boyaa BVI or the Company who is a PRC citizen and cannot be Mr. Zhang Wei, Mr. Dai Zhikang or any of their associates. These include the rights to (i) attend shareholders' meetings, (ii) exercise voting rights in shareholders' meetings to appoint directors, supervisors and senior management, (iii) decide on any acquisition or disposal of the equity interest of Mr. Zhang Wei and Mr. Dai Zhikang in Boyaa Shenzhen or the winding-up or dissolution of Boyaa Shenzhen, (iv) file documents with relevant governmental authorities or regulatory bodies, to (v) instruct directors and senior management of Boyaa Shenzhen to act in accordance with all instructions of Boyaa PRC or its designated person, and (vi) exercise such other shareholders' rights as stipulated under applicable PRC laws, rules and regulations and the articles of association of Boyaa Shenzhen.

### **(c) Exclusive Option Agreement**

Boyaa PRC, Mr. Zhang Wei, Mr. Dai Zhikang and Boyaa Shenzhen entered into the Exclusive Option Agreement on 15 May 2013, and as further amended and supplemented by the supplemental agreement dated 22 October 2013, pursuant to which Mr. Zhang Wei and Mr. Dai Zhikang jointly and severally granted to Boyaa PRC or a subsidiary of the Company or an authorised director (being a PRC citizen) of any company within our Group irrevocable options to purchase, to the extent permitted by PRC laws and regulations, their equity interests in Boyaa Shenzhen, entirely or partially, at the minimum purchase price permitted under PRC laws and regulations. In addition, pursuant to the Exclusive Option Agreement, Boyaa Shenzhen granted to Boyaa PRC, a subsidiary of the Company or an authorised director (being a PRC citizen) of any company within the Group an irrevocable option to acquire, to the extent permitted by PRC laws and regulations, all or part of the assets of Boyaa Shenzhen at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations. Boyaa PRC, such subsidiary or authorised director may exercise such options at any time until it has acquired all equity interests and/or assets of Boyaa Shenzhen, subject to applicable PRC laws and regulations. It is also agreed that when the relevant PRC law permits the equity interests of Boyaa Shenzhen to be directly held by Boyaa PRC while it continues to operate its online games business, the parties will carry out all necessary actions to implement the transfer of all the shares of Boyaa Shenzhen to Boyaa PRC pursuant to the exercise of the option granted under the Exclusive Option Agreement.



## Directors' Report

Pursuant to the Exclusive Option Agreement, Boyaa Shenzhen has undertaken to perform certain acts or refrain from performing certain other acts unless it has obtained prior approval from Boyaa PRC, including but not limited to the following matters:

- (i) Boyaa Shenzhen shall not alter its constitutional documents or its registered capital;
- (ii) Boyaa Shenzhen shall prudently and effectively operate its business and transactions in accordance with good financial and business standards;
- (iii) Boyaa Shenzhen shall not sell, transfer, create encumbrances or otherwise dispose of any assets, business, legal or beneficial interest of its income or allow any guarantee or security to be created on its assets;
- (iv) Boyaa Shenzhen shall not incur, take up, guarantee or allow any indebtedness other than those in the ordinary course of business and having been disclosed to and consented by Boyaa PRC in writing;
- (v) Boyaa Shenzhen shall not enter into any material contracts with an amount of over RMB1 million other than in the ordinary course of business;
- (vi) Boyaa Shenzhen shall operate its business in order to maintain its asset value or not allow any acts or omission which adversely affects its business or assets value;
- (vii) Boyaa Shenzhen shall not engage in any mergers or acquisitions or make investment in any entities;
- (viii) Boyaa Shenzhen shall immediately inform Boyaa PRC if its assets or business are involved in any disputes, litigations, arbitrations or administrative proceedings; and
- (ix) Boyaa Shenzhen shall not distribute any dividend to Mr. Zhang Wei or Mr. Dai Zhikang. Each of Mr. Zhang Wei and Mr. Dai Zhikang shall transfer all distributable dividends, capital dividend and other assets receivable by him at nil consideration to Boyaa PRC as soon as practicable but in any event no later than three days upon receipt of the same by any of them.

The Exclusive Option Agreement is for an indefinite term commencing on 15 May 2013, being the date of the agreement, until it is terminated (i) by Boyaa PRC by giving Boyaa Shenzhen a 30-day prior written notice of termination, or (ii) upon the transfer of the entire equity interests held by either Mr. Zhang Wei and/or Mr. Dai Zhikang in Boyaa Shenzhen and/or the transfer of all the assets of Boyaa Shenzhen to Boyaa PRC or its designated person. Boyaa Shenzhen is not contractually entitled to terminate the Exclusive Option Agreement with Boyaa PRC.

### **(d) Equity Pledge Agreement**

Boyaa PRC, Mr. Zhang Wei and Mr. Dai Zhikang entered into the Equity Pledge Agreement (as restated and amended) on 15 May 2013, pursuant to which each of Mr. Zhang Wei and Mr. Dai Zhikang agreed to pledge all of their respective equity interests in Boyaa Shenzhen to Boyaa PRC to secure performance of all their obligations and the obligations of Boyaa Shenzhen under the Exclusive Business Consulting and Service Agreement, the Business Operating Agreement, the Exclusive Option Agreement, the Intellectual Properties License Agreement and the Loan Agreement underlying the Contractual Arrangements.



## Directors' Report

Under the Equity Pledge Agreement, Mr. Zhang Wei and Mr. Dai Zhikang represent and warrant to Boyaa PRC that appropriate arrangements have been made to protect Boyaa PRC's interests in the event of death, bankruptcy or divorce of the Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement. If Boyaa Shenzhen declares any dividend during the term of the pledge, Boyaa PRC is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of Mr. Zhang Wei and Mr. Dai Zhikang breaches or fails to fulfill the obligations under any of the aforementioned agreements, Boyaa PRC, as the pledgee, will be entitled to dispose of the pledged equity interests, entirely or partially. In addition, pursuant to the Equity Pledge Agreement, each of Mr. Zhang Wei and Mr. Dai Zhikang has undertaken to Boyaa PRC, among other things, not to transfer the interest in his equity interests in Boyaa Shenzhen and not to create or allow any pledge thereon that may affect the rights and interest of Boyaa PRC without its prior written consent.

The Equity Pledge Agreement is for an indefinite term commencing on 15 May 2013, being the date of the agreement, until (i) all the agreements (other than this Equity Pledge Agreement) underlying the Contractual Arrangements have been terminated, or (ii) all the obligations under the Equity Pledge Agreement have been fulfilled.

### **(e) Intellectual Properties License Agreement**

Boyaa PRC and Boyaa Shenzhen entered into the Intellectual Properties License Agreement on 15 May 2013, pursuant to which Boyaa PRC agrees to grant a non-exclusive license to Boyaa Shenzhen for the use of all its existing and future intellectual properties, including but not limited to trademarks, patents and copyright and whether registered or non-registered. Pursuant to the Intellectual Properties License Agreement, Boyaa Shenzhen is licensed to use such intellectual properties strictly in the operation of its telecommunication value-added services and Internet cultural services and Boyaa Shenzhen cannot sub-license such intellectual properties to any third parties or use such intellectual properties for any other purpose. Such license is only effective onshore in the PRC and does not apply to any direct or indirect use of such intellectual properties in any other territories or jurisdictions. Pursuant to the terms of the Intellectual Properties License Agreement, the license fee and royalty to be charged by Boyaa PRC for the use of such intellectual properties by Boyaa Shenzhen are included as part of the service fee under the Exclusive Business Consulting and Service Agreement.

The Intellectual Properties License Agreement is for a term of ten years commencing from 15 May 2013, being the date of the agreement, and may be automatically extended for another ten years at the discretion of Boyaa PRC, until it is terminated by Boyaa PRC by giving Boyaa Shenzhen a 30-day prior written notice of termination.



## Directors' Report

### (f) *Loan Agreement*

In order to satisfy the funding needs of Boyaa Shenzhen, Mr. Zhang Wei borrowed a sum of RMB8,000,000 from a third party in 2012. On 15 May 2013, Boyaa PRC and Mr. Zhang Wei entered into the Loan Agreement, and as amended and supplemented by the supplemental agreement dated 22 October 2013, pursuant to which Boyaa PRC agreed to lend RMB8,000,000 to Mr. Zhang Wei to allow him to repay the RMB8,000,000 loan which he had borrowed for the purpose of his additional capital contributions in Boyaa Shenzhen in May 2012. Pursuant to the Loan Agreement, the parties agreed to enter into the Exclusive Option Agreement where Boyaa PRC has the right to exercise a call option granted by Mr. Zhang Wei to acquire all or part of the equity interest in Boyaa Shenzhen held by Mr. Zhang Wei at the minimum consideration that is permissible under law. In addition, to secure the performance of all obligations of Mr. Zhang Wei under the Loan Agreement and all other agreements (other than the Equity Pledge Agreement) underlying the Contractual Arrangements, the parties shall enter into the restated and amended Equity Pledge Agreement where, among others, Mr. Zhang Wei pledges all of his equity interests in Boyaa Shenzhen to Boyaa PRC.

The Loan Agreement is for a term of ten years commencing from 15 May 2013, being the date of the agreement, and may be automatically extended for another ten years. The loan will become due and payable upon Boyaa PRC's demand under any of the following circumstances: (i) Mr. Zhang Wei resigns or is being removed from the various positions held by him in the Group, (ii) the death or incapacity of Mr. Zhang Wei, (iii) Mr. Zhang Wei being engaged or involved in criminal activities, (iv) Mr. Zhang Wei becoming insolvent or incurring any other significant personal debt which may affect Mr. Zhang Wei's ability to repay the personal loan under the Loan Agreement, or (v) Boyaa PRC exercising its option to purchase all equity interests in Boyaa Shenzhen held by Mr. Zhang Wei to the extent permitted by PRC laws and regulations as soon as the PRC foreign ownership restrictions applicable to the Group's online games business have been lifted. The Loan Agreement provides that the loan can only be repaid by Mr. Zhang Wei using proceeds he will receive upon Boyaa PRC's exercise of its irrevocable option to purchase Boyaa Shenzhen's equity interests or assets pursuant to the Exclusive Option Agreement.

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced between the Group and Boyaa Shenzhen during the year ended 31 December 2019. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2019.

During the year ended 31 December 2019, none of the agreements underlying the Contractual Arrangements mentioned above has been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

The Group entered into certain transactions with "related parties" as defined under the applicable accounting standards, which include a transaction that constitutes a connected transaction for which the relevant disclosure requirements under Chapter 14A of the Listing Rules have been complied with. A summary of the related party transactions entered into by the Group during the year ended 31 December 2019 is set out in Note 37 to the consolidated financial statements.



## Directors' Report

### *Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks*

#### **Risks associated with the Contractual Arrangements**

#### **Mitigation actions taken by the Company**

- i. If the PRC government finds that the agreements that establish the structure for operating the Group's online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Group's interest in its variable interest entity ("**VIE**"), i.e. Boyaa Shenzhen.

Pursuant to each of the agreements underlying the Contractual Arrangements, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change on such laws, regulations or rules leading to any provision in any of the agreements underlying the Contractual Arrangements is held to be or becomes illegal, invalid or unenforceable in any respect under the law of the applicable jurisdiction:

- (a) so far as it is illegal, invalid and unenforceable, it shall be given no effect and shall be deemed not to be included in the relevant agreement and shall not affect or impair the legality, validity or enforceability in that jurisdiction of the other provisions of the agreement, or of that or any provisions of the relevant agreement in any other jurisdictions; and
- (b) the parties shall use all reasonable endeavors to replace it with a valid and enforceable substitute provision or provisions but differing from the replaced provision as little as possible and the effect of which is as close to the intended effect of the illegal, invalid or unenforceable provision.

In addition, pursuant to the agreements underlying the Contractual Arrangements, the parties agreed and will ensure that they will unwind the Contractual Arrangements as soon as the law allows the business to be operated without them.



## Directors' Report

### Risks associated with the Contractual Arrangements

### Mitigation actions taken by the Company

ii. The Group relies on the Contractual Arrangements to control and obtain the economic benefits from Boyaa Shenzhen which may not be as effective in providing operational control as direct ownership.

Each of Mr. Zhang Wei and Mr. Dai Zhikang (the Chairman of the Board and executive director), being the registered shareholders of Boyaa Shenzhen, has executed a power of attorney pursuant to the terms of the Business Operating Agreement. Pursuant to the power of attorney, each of the shareholders of Boyaa Shenzhen agrees to authorise any individual(s) appointed by Boyaa PRC to exercise all of their rights and powers as shareholders of Boyaa Shenzhen. These include the rights to (i) attend shareholders' meetings, (ii) exercise voting rights in shareholders' meetings to appoint directors, supervisors and senior management, (iii) decide on any acquisition or disposal of the equity interest of Mr. Zhang Wei and Mr. Dai Zhikang in Boyaa Shenzhen or the winding-up or dissolution of Boyaa Shenzhen, (iv) file documents with relevant governmental authorities or regulatory bodies, (v) to instruct directors and senior management of Boyaa Shenzhen to act in accordance with all instructions of Boyaa PRC or its designated person, and (vi) exercise such other shareholders' rights as stipulated under applicable PRC laws, rules and regulations and the articles of Boyaa Shenzhen.

iii. The shareholders of Boyaa Shenzhen may have conflicts of interest with the Group, which may materially and adversely affect the Group's business.

Pursuant to the Exclusive Option Agreement, the Company has the option to (i) purchase or to designate a third party to purchase the equity interests of the existing shareholders of Boyaa Shenzhen when and to the extent permitted by law and (ii) acquire, to the extent permitted by PRC laws and regulations, all or part of the assets of Boyaa Shenzhen at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations. Each of Boyaa Shenzhen's shareholders has executed a power of attorney to authorise any individual(s) appointed by Boyaa PRC to exercise all of their rights and powers as shareholders of Boyaa Shenzhen.



## Directors' Report

### Risks associated with the Contractual Arrangements

### Mitigation actions taken by the Company

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|   |  |
|---|--|
| <p>iv. The Group may lose the ability to use and enjoy assets held by the VIE that are important to the operation of its business if the VIE declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.</p> | <p>In addition, to ensure that Mr. Zhang Wei, Mr. Dai Zhikang and Boyaa Shenzhen will comply with the Contractual Arrangements, the Company has further introduced the following measures:</p> <ol style="list-style-type: none"><li>i. the three independent non-executive directors will review the effective implementation of the procedures and controls and compliance of the Contractual Arrangements;</li><li>ii. each of Mr. Zhang Wei and Mr. Dai Zhikang shall abstain from voting on any resolutions of Boyaa Shenzhen in which he may have conflicts of interest, and all resolutions shall be passed unanimously or by the affirmative vote of a simple majority of the board of Boyaa Shenzhen (as the case may be), and if any resolution could not be passed by the board of Boyaa Shenzhen unanimously or by a simple majority of votes (as the case may be), such resolution would be considered as disapproved; and</li><li>iii. the Group has implemented corporate governance measures to manage any conflicts of interest between the Group and the directors.</li></ol> <p>Pursuant to the Business Operating Agreement, in the event that Boyaa PRC or its designee decided to voluntary wind-up or dissolve Boyaa Shenzhen, each of Mr. Zhang Wei and Mr. Dai Zhikang undertakes that he will ensure and procure the execution of all related documents and completion of all relevant procedures required for completing the liquidation and winding-up process and that Boyaa PRC shall be transferred, at nil consideration, all remaining assets of Boyaa Shenzhen upon liquidation.</p> |
|   | <p>In addition, under the Business Operating Agreement and the Equity Pledge Agreement, Mr. Zhang Wei and Mr. Dai Zhikang warrant to Boyaa PRC that appropriate arrangements have been made to protect Boyaa PRC's interests in the event of his death, bankruptcy or divorce to avoid any practical difficulties in enforcing the agreements underlying the Contractual Arrangements.</p>   |



## Directors' Report

### Risks associated with the Contractual Arrangements

### Mitigation actions taken by the Company

- v. The Contractual Arrangements between Boyaa PRC and Boyaa Shenzhen may subject the Group to increase income tax due to the different income tax rates applicable to Boyaa PRC and Boyaa Shenzhen, which may adversely affect the Group's results of operations.

Boyaa Shenzhen qualified as a "High and New Technology Enterprise" ("HNTe") under the PRC Corporate Income Tax Law in 2018 and as a result, Boyaa Shenzhen enjoys a preferential tax rate of 15% from 1 January 2018 to 31 December 2020. Therefore, the actual income tax rate for Boyaa Shenzhen was 15% for the year ended 31 December 2019 (2018: 15%). See Note 11 to the consolidated financial statements of this annual report.

Boyaa PRC qualified as a HNTe under the PRC Corporate Income Tax Law in 2019 and as a result, Boyaa PRC enjoyed a preferential tax rate of 15% from 1 January 2019 to 31 December 2021. Therefore, the actual income tax rate for Boyaa PRC was 15% for the year ended 31 December 2019 (2018: 15%). Also see Note 11 to the consolidated financial statements of this annual report.

As a result, as both Boyaa Shenzhen and Boyaa PRC enjoy the reduced income tax rate of 15%, the transfer of the before-tax profits by Boyaa Shenzhen to Boyaa PRC during the Reporting Period or any future period will not result in increased income tax expenses for the Group on a consolidated basis and hence will not materially and adversely affect the Group's results of operations, particularly, its net profit and net profit margin.

- vi. The Contractual Arrangements between Boyaa PRC and Boyaa Shenzhen may be subject to scrutiny by the PRC tax authorities and any finding that the Group or Boyaa Shenzhen owe additional taxes could substantially reduce the Group's consolidated net income and the value of the investment of investors.

The Group will work closely with its tax advisors to ensure that all tax filings are made promptly and any questions raised by PRC tax authorities are addressed in a timely and satisfactory manner.



## Directors' Report

### Risks associated with the Contractual Arrangements

### Mitigation actions taken by the Company

vii. Under the Foreign Investment Law 2019 and relevant provisions of its implementation regulations, substantial uncertainties exist in connection with the legality and validity of the Contractual Arrangements to hold interests in PRC businesses that are subject to foreign ownership restrictions and the Company may have to incur compliance costs in the future.

Under the Foreign Investment Law 2019, the existing enterprises established under the former Foreign Investment Law may maintain their existing organizational structure within five years from the effective date of the Foreign Investment Law 2019. Meanwhile, foreign Investment Law 2019 does not explicitly stipulate the Contractual Arrangements as foreign investment. Therefore, the PRC legal advisor of the Company believes that the Foreign Investment Law 2019 does not mention the concepts including “actual control” and “control through contractual arrangements”, nor does it specify regulations on control through contractual arrangements. In addition, the Foreign Investment Law 2019 and its implementing regulations do not specify the relevant business rules, but instead stipulate that “foreign investors invest through laws, administrative regulations or other methods prescribed by the State Council”. In addition, the Foreign Investment Law 2019 and its implementing regulations do not specify on what actions should be taken by existing companies with variable interest entity structures and whether these companies are controlled by Chinese entities and/or citizens. Therefore, according to our Chinese legal adviser, our contractual arrangements will not be affected by the “Foreign Investment Law 2019” and its implementation regulations. Nevertheless, it is still possible for China’s future laws, administrative regulations or State Council regulations to stipulate contractual arrangements as a way of foreign investment. Whether our contractual arrangements will be recognized as foreign investment, whether it will be considered as a violation of foreign investment access and how it will be defined are still uncertain. In any event, the Company will closely monitor any update of the Foreign Investment Law 2019 and consult its PRC legal advisor to resolve specific problems or issues that may arise from the Contractual Arrangements, so as to ensure that the Company always complies with all relevant laws and regulations in the PRC.

For details of the risks associated with the Contractual Arrangements, please refer to the section headed “Risk Factors – Risks relating to our corporate structure” in the Prospectus.

A waiver has been granted by the Stock Exchange regarding strict compliance with (i) the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements, (ii) the requirement of setting an annual cap for the fees payable to Boyaa PRC under the Contractual Arrangements, and (iii) the requirement of limiting the term of the Contractual Arrangements to three



## Directors' Report

years or less, for so long as Shares are listed on the Stock Exchange, subject to certain conditions. In addition, the Stock Exchange has also granted a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under any new transactions, contracts, and agreements, or renewal of existing agreements to be entered into between Boyaa Shenzhen and any member of the Group (the "**New Intergroup Agreements**"), (ii) the requirement of setting an annual cap for the fees payable by/to any member of the Group to/from Boyaa Shenzhen under any New Intergroup Agreements, and (iii) the requirement of limiting the term of any New Intergroup Agreement to three years or less, for so long as Shares are listed on the Stock Exchange, subject to certain conditions.

The directors (including the independent non-executive directors) of the Company are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, that such transactions are in the ordinary and usual course of business of the Group, are on normal commercial terms or better and are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The independent non-executive directors of the Company reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the profit generated by Boyaa Shenzhen has been substantially retained by Boyaa PRC, (ii) no dividends or other distributions have been made by Boyaa Shenzhen to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group, and (iii) no New Intergroup Agreements have been entered into between the Group and Boyaa Shenzhen during the year ended 31 December 2019.

Further, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended 31 December 2019 has been provided by the Company to the Stock Exchange.

By order of the Board

**Dai Zhikang**

*Chairman and Executive Director*

Hong Kong, 29 May 2020



## Corporate Governance Report

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures, and the Board is responsible for performing such corporate governance duties. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and directors with reference to the Corporate Governance Code and Corporate Governance Report (the “Code”) set out in Appendix 14 to the Listing Rules and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

During the year ended 31 December 2019, the Company has complied with the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules.

### BOARD OF DIRECTORS

The Board is in charge with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company’s business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

The Board is also responsible for determining the policy for the corporate governance of the Company and has performed the duties as set out in provision D.3.1 of the Code.

The Board currently consists of five directors, namely Mr. Dai Zhikang (Chairman) and Ms. Tao Ying (Acting Chief Executive Officer) as executive directors, and Mr. Cheung Ngai Lam, Mr. Choi Hon Keung Simon and Mr. Sun Zihua as independent non-executive directors. There is no relationship (including financial, family or other material or relevant relationships) between the directors. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the directors of the Company are set out on pages 17 to 18 of this annual report.

Each of the executive directors of the Company has entered into a service contract with the Company and the Company issued a letter of appointment to each of the independent non-executive directors. All executive directors and independent non-executive directors will hold office until the conclusion of the next AGM of the Company. The service contracts and letters of appointment are subject to termination in accordance with their respective terms. The terms of the service contracts and the letters of appointment may be renewed in accordance with the articles of association of the Company, the Listing Rules and any other applicable laws.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) payable to the directors (including directors who have resigned during the year) of the Company for the year ended 31 December 2019 was approximately RMB1.1 million in total.

The remuneration of the directors of the Company is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the directors and performance of the Group. Details of the remuneration of the directors and senior management for the year ended 31 December 2019 are set out in Note 13 and Note 37 to the consolidated financial statements.

Appropriate insurance cover has been arranged by the Company in respect of legal action against the directors of the Company.

During the year ended 31 December 2019, the Company has three independent non-executive directors, in compliance with the requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board.



## Corporate Governance Report

The Company has received an annual written confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers them to be independent.

Directors have access to the company secretary to ensure that the Board procedures are followed. The current company secretary of the Company is Ms. Lai Siu Kuen. In compliance with Rule 3.29 of the Listing Rules, Ms. Lai Siu Kuen has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2019. Ms. Lai Siu Kuen is a director of listing corporate services department of Trident Corporate Services (Asia) Limited and possesses the requisite qualification and experience as required under Rule 3.28 and Rule 8.17 of the Listing Rules. Ms. Lai Siu Kuen has assisted on the company secretarial matters of the Company since its Listing and has closely communicated with Ms. Tao Ying, an executive director of the Company.

During the Reporting Period, all directors of the Company attended various trainings, including the trainings for the delisting and other rule amendments of the Listing Rules, directors' responsibilities and continuous obligations, and the legal representative's responsibility and legal responsibility. The Company will arrange suitable training for all directors in order to enhance and refresh their knowledge and skills as part of their continuous professional development. Details of the training attended by the directors of the Company during the Reporting Period are set out below:

| Directors                                 | Title                              | Participation of training type |               | Type of training   |
|---|------------------------------------|--------------------------------|---------------|--|
|   |                                    | A, B, C, D, E                  | A, B, C, D, E |  |
| Mr. Dai Zhikang                           | Chairman and Executive Director    | A, B, C, D, E                  | A:            | Review of the Stock Exchange's training materials on the "Corporate Governance Code" and related "Listing Rules" amendments  |
| Ms. Tao Ying                              | Executive Director                 | A, B, C, D, E                  | B:            | Review of the materials on directors' responsibilities and continuous obligations  |
| Mr. Cheung Ngai Lam                       | Independent non-executive Director | A, B, C, D, E                  | C:            | Participate in corporate governance training for listed companies held on-site by law firms or learn related materials   |
| Mr. Choi Hon Keung Simon                  | Independent non-executive Director | A, B, C, D, E                  | D:            | Review of the training materials on the "Cap. 622M Non-Hong Kong Companies (Disclosure of Company Name, Place of Incorporation and Member's Limited Liability) Regulation" |
| Mr. You Caizhen (retired on 14 July 2019) | Independent non-executive Director | C, D, E                        | E:            | Review, understand and use the training materials of China's "Company Law" and "Foreign Investment Law"  |
| Mr. Sun Zihua (appointed on 14 July 2019) | Independent non-executive Director | C, D, E                        |               |  |

During the Reporting Period, the Board held 13 meetings. A total of 44 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2018 annual report, 2018 annual results announcement, 2019 first quarterly results announcement, 2019 interim report, 2019 interim results announcement, 2019 third quarterly results announcement and the appointment of a new independent non-executive director, etc.

In relation to corporate governance matters, the Company had further reviewed and improved its work on corporate governance and internal control during the Reporting Period. For instance, the Company had consolidated and rationalised the internal procedures, and improved and updated certain systems in the Group, including formulating the Intellectual Property Maintenance Control Procedures and updating systems with the development of the Internal Audit System, the Attendance and Vacation System and Regulations on Disclosure of Inside Information for Listing.



## Corporate Governance Report

The Company is committed to continuously reviewing and improving its internal systems, including those in relation to internal supervision and control, and risk management.

The table below sets out the details of Board meetings attendance of each director of the Company during the Reporting Period.

| Director   | Number of Board meetings requiring attendance | Number of Board meetings attended |
|--|---|-----------------------------------|
| Mr. Dai Zhikang                                    | 13  | 13                                |
| Ms. Tao Ying                                       | 13  | 13                                |
| Mr. Cheung Ngai Lam                                | 13  | 13                                |
| Mr. Choi Hon Keung Simon                           | 13  | 13                                |
| Mr. You Caizhen ( <i>retired on 14 July 2019</i> ) | 6   | 6                                 |
| Mr. Sun Zihua ( <i>appointed on 14 July 2019</i> ) | 7   | 7                                 |

In 2019, the Company convened and held one general meeting, being the 2018 annual general meeting held on 6 June 2019. Directors of the Company, namely Ms. Tao Ying, Mr. Cheung Ngai Lam and Mr. Choi Hon Keung Simon attended the general meeting.

### BOARD COMMITTEES

The Company has three principal Board committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

#### *Audit Committee*

The Company established an Audit Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Company has also updated the terms of reference of the Audit Committee reflecting the changes to the Code, which became effective on 31 December 2018. The Audit Committee consisted of three members, namely Mr. Cheung Ngai Lam, Mr. Choi Hon Keung Simon and Mr. Sun Zihua, our independent non-executive directors, Mr. You Caizhen retired on 14 July 2019 and Mr. Sun Zihua had been appointed as a member of the Audit Committee since 14 July 2019. Mr. Cheung Ngai Lam is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise, and provide an independent view of the effectiveness of, the financial reporting process, risk management and internal control systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

During the year ended 31 December 2019, the Audit Committee held 6 meetings, at which a total of 20 proposals were considered, including proposals for the consideration of the Company's 2018 annual report, 2018 annual results announcement, 2019 first quarterly results announcement, 2019 interim report, 2019 interim results announcement, 2019 third quarterly results announcement, etc. The Audit Committee also assessed the risk management and internal control measures, the effectiveness of the internal audit function and its other duties under the Code of the Company.



## Corporate Governance Report

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2019.

| <b>Director</b>                                    | <b>Number of meetings requiring attendance</b> | <b>Number of meetings attended</b> |
|--|--|------------------------------------|
| Mr. Cheung Ngai Lam                                | 6  | 6                                  |
| Mr. Choi Hon Keung Simon                           | 6  | 6                                  |
| Mr. You Caizhen ( <i>retired on 14 July 2019</i> ) | 3  | 3                                  |
| Mr. Sun Zihua ( <i>appointed on 14 July 2019</i> ) | 3  | 3                                  |

### **Nomination Committee**

The Company established a Nomination Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive directors, being Mr. Choi Hon Keung Simon and Mr. Sun Zihua and one executive director, being Ms. Tao Ying. Mr. You Caizhen had retired on 14 July 2019, Mr. Sun Zihua has been appointed as the member of Nomination Committee since 14 July 2019. Ms. Tao Ying is the Chairlady of the Nomination Committee.

In 2019, the Nomination Committee held 2 meetings, at which a total of 5 proposals were considered, including proposals for the review of the Board's composition, the independence of the independent non-executive directors, the recommendation of re-election of the retiring directors and appointment of a new independent non-executive director.

The table below sets out the details of meetings attendance of each member of the Nomination Committee during the year ended 31 December 2019.

| <b>Director</b>                                    | <b>Number of meeting requiring attendance</b> | <b>Number of meeting attended</b> |
|--|---|-----------------------------------|
| Ms. Tao Ying                                       | 2   | 2                                 |
| Mr. Choi Hon Keung Simon                           | 2   | 2                                 |
| Mr. You Caizhen ( <i>retired on 14 July 2019</i> ) | 2   | 2                                 |
| Mr. Sun Zihua ( <i>appointed on 14 July 2019</i> ) | 0   | 0                                 |

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive directors and making recommendations to the Board on appointment and removal of directors, and disclosing the policy for the nomination of directors, performed by the Nomination Committee or the Board during the year.



# Corporate Governance Report

## **Nomination Policy**

### **a. Objective**

**This Director Nomination Policy (this “Policy”) aims to:**

- i. Set out the criteria and process in the nomination and appointment of directors of the Company;
- ii. Ensure that the Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the Company; and
- iii. Ensure the Board continuity and appropriate leadership at the Board level.

### **b. Selection Criteria**

**In evaluating and selecting any candidate for directorship, the following criteria should be considered by the Nomination Committee/Board of Directors:**

- i. Character and integrity;
- ii. Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company’s business and corporate strategy;
- iii. Any measurable objectives adopted for achieving diversity on the Board;
- iv. Requirement for the Board to have independent Directors in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- v. Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence, gender and cultural diversity;
- vi. Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;
- vii. Such other perspectives that are appropriate to the Company’s business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

## **Board Diversity Policy**

The Board has approved and adopted a board diversity policy (the “**Board Diversity Policy**”). A summary of the Board Diversity Policy is disclosed as below.

The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective.

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merits against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on the merits and contributions that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises five Directors. Three of them are independent non-executive Directors, who provide critical review and oversight of the Company’s management. The Board is also characterised by significant diversity, whether considered in terms of gender, educational background, technical and professional skills and/or qualifications.



# Corporate Governance Report

## Remuneration Committee

The Company established a Remuneration Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, comprising three independent non-executive directors, namely Mr. Cheung Ngai Lam, Mr. Choi Hon Keung Simon and Mr. Sun Zihua. Mr. You Caizhen retired on 14 July 2019 and Mr. Sun Zihua had been appointed as a member of the Remuneration Committee since 14 July 2019. Mr. Cheung Ngai Lam is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the directors and senior management and make recommendations on employee benefit arrangement.

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(i) of the Code in its terms of reference.

In 2019, the Remuneration Committee held 2 meetings, at which a total of 3 proposals were considered, namely (i) proposals for the remuneration of the directors and senior management, (ii) the policy and structure of the remuneration for the directors and senior management and (iii) the remuneration of the newly appointed independent non-executive director.

The table below sets out the details of meetings attendance of each member of the Remuneration Committee during the year ended 31 December 2019.

| Director   | Number of meeting requiring attendance | Number of meeting attended |
|--|--|----------------------------|
| Mr. Cheung Ngai Lam                                | 2                                      | 2                          |
| Mr. Choi Hon Keung Simon                           | 2                                      | 2                          |
| Mr. You Caizhen ( <i>retired on 14 July 2019</i> ) | 2                                      | 2                          |
| Mr. Sun Zihua ( <i>appointed on 14 July 2019</i> ) | 0                                      | 0                          |

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2019.

## FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

The Company has in place a policy on handling and dissemination of inside information (“**Policy**”) which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to determine the price of the listed securities of the Company with the latest available information. This Policy also provides guidelines to staff of the Company to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.



# Corporate Governance Report

## EXTERNAL AUDITOR

ZHONGHUI ANDA was appointed as the external auditor of the Company with effect from 9 April 2020 to fill the vacancy of Pan-China who had resigned.

For the year ended 31 December 2019, the fees paid/payable to Pan-China and ZHONGHUI ANDA in respect of their respective statutory audit services provided to the Company was approximately RMB4.5 million. Pan-China and ZHONGHUI ANDA did not provide non-audit services to the Group for the year ended 31 December 2019.

## ACCOUNTABILITY AND AUDIT

The directors of the Company are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the Reporting Period. A statement from the auditor about its reporting responsibilities on the financial statements is set out on pages 80 to 83 of this annual report. In preparing the financial statements for the year ended 31 December 2019, the directors of the Company have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the long term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out on pages 7 to 16 of this annual report.

## INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for maintaining sound and effective internal control and risk management systems in order to safeguard the Group's assets and Shareholders' interests and reviewing the effectiveness of the Company's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis. The Company implements and strictly enforces procedures on inside information according to the relevant procedures stated under the Guidelines on Disclosure of Inside Information.

The Group's internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis so as to identify, evaluate and manage significant risks in a timely manner.



## Corporate Governance Report

During the year ended 31 December 2019, the Board has reviewed the effectiveness of the internal control and risk management systems of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions are adequate. The review was conducted through discussions with the management of the Company, its external and internal auditors and the assessment performed by the Audit Committee. The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance as well as for resolving internal control defects (if any).

On or around 4 March 2019, it has come to the attention of the Company that it was not able to continue to use the idle cash reserves in its individual bank accounts (the "**Relevant Idle Cash Reserves**") for fixed-term deposits or wealth management (the "**Incident**"). The Relevant Idle Cash Reserves only constitute a portion of the Company's total idle cash reserves. At 31 December 2019, the Relevant Idle Cash Reserves amount to approximately RMB651 million. At the relevant time, the Company considered that the Incident may be implicated as a result of the Case (as defined below) involving individual Employees (as defined below), as such, the Company has engaged its PRC legal advisers (the "**PRC Legal Advisers**") to advise on this matter in March 2019. Upon engagement of the PRC Legal Advisers, the PRC Legal Advisers have submitted applications to the relevant PRC court and procuratorate on behalf of the Company in relation to the Incident, including an application to utilize the Relevant Idle Cash Reserves.

On 27 August 2019, the Company received a reply from the relevant PRC court that the Relevant Idle Cash Reserves were frozen due to a prosecution (the "**Case**") made by the relevant PRC judicial authority against its individual current or former employees (the "**Employees**") for their alleged illegal activities conducted through one of the Company's onshore online gaming platforms.

As advised by the PRC Legal Advisers, on 27 December 2019, the Intermediate People's Court of Chengde City, Hebei Province (the "**Trial Court**") delivered the judgment in relation to the Case (the "**Judgment**"). The Trial Court held that the Employees are guilty of the Alleged Crime and ordered an amount of RMB942,654,382.75 to be paid to the state treasury (the "**Judgment Sum**"). As advised by the PRC Legal Adviser, on 6 January 2020, one of the Employees had applied for appeal against the Judgment and therefore, the Judgment will not be enforceable and the Trial Court will not order the Judgment Sum to be paid until the judgment from the appeal hearing has been handed down. As at the date of this annual report, the date of the appeal hearing has not been fixed.

The Company is not a party prosecuted in the Case and it was implicated due to the alleged illegal activities on the part of its individual Employees. On 4 September 2019, the Company had established an independent investigation committee comprising all independent non-executive directors of the Company, for the purposes of conducting an independent investigation on internal matters arising out of the Case ("**Independent Investigation Committee**"). On 21 October 2019, the Independent Investigation Committee engaged with Deloitte Consulting (Beijing) Company ("**Deloitte**") to review the Company's internal control system on its adequacy and to suggest improvements to the internal control system.

For details of the Case, the Judgment and the establishment of the Independent Investigation Committee, please refer to the Company's announcements dated 1 September 2019, 4 September 2019, 13 December 2019, 3 January 2020 and 6 January 2020.



# Corporate Governance Report

## DETAILS OF THE QUALIFIED OPINION AND ITS POTENTIAL IMPACT

The consolidated financial statements of the Group for the year ended 31 December 2019 had been subject to qualified opinion of the independent auditor of the Company on the basis as set out in the paragraph headed “Basis for qualified opinion” in the independent auditor’s report in this annual report. During the course of the audit, the independent auditor of the Company considered that it was unable to obtain sufficient appropriate audit evidence to satisfy itself as to the recoverability of frozen investments at fair value through profit or loss and restricted bank deposits of RMB362,930,000 and RMB288,394,000 as at 31 December 2019 respectively (the “**Frozen Sum**”). The auditor is also of the view that there are no other satisfactory audit procedures that it could adopt to determine whether any allowances for non-recovery of these amounts should be made in the consolidated financial statements (the “**Qualified Opinion**”).

Any adjustments of the above frozen investments at fair value through profit or loss and restricted bank deposits might have a consequential effect on the Group’s net asset as at 31 December 2019 and its financial performance for the year ended 31 December 2019.

## MANAGEMENT’S VIEW ON THE QUALIFIED OPINION

In respect of the Qualified Opinion, the Board is of the view that:

1. the management had been in constant discussion with the PRC Legal Adviser in relation to the Case;
2. the Board has discussed with the independent auditors on the Qualified Opinion and the audit procedures performed; and
3. given that the Company is not a party to the Case and that the Frozen Sum was implicated due to the alleged illegal activities on the part of the individual Employees, the Board concluded that it had provided all available information to the independent auditor and there was no additional information and evidence available.

## VIEW OF AUDIT COMMITTEE

The Audit Committee had critically reviewed the matter after discussion with the auditors and it held the same view as the auditors as to the basis of the Qualified Opinion. The Audit Committee had from time to time closely communicate with the Board and the independent auditor on the updated operation and financial performance of the Group, in particular, the progress of the Case and the Qualified Opinion.

## ACTION PLAN OF THE GROUP TO ADDRESS THE QUALIFIED OPINION

In respect of the case, the Company had engaged the PRC Legal Adviser to advise on the matter and to apply to the relevant PRC court and judiciary authorities to utilise the Relevant Idle Cash Reserves. The Group had also set up an independent investigation committee to investigate on internal matters arising out of the Case and engaged Deloitte to review the Company’s internal control system. The Company had put in place additional internal control measures include addition measures on declaration of interest by employees and revenue management systems. The Company will use its best endeavours to monitor the Case and to make necessary applications to the relevant PRC court with the assistance from the PRC Legal Adviser.



# Corporate Governance Report

## SHAREHOLDERS

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, general meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitioner, provided that such requisitioner held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitioner(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

To safeguard shareholder interests and rights, separate resolutions are and will be proposed at general meetings on each substantial issue, including the election of individual directors. The procedures for shareholder to propose a person for election as director is available on the Company's website ([www.boyya.com.hk](http://www.boyya.com.hk)). Shareholders may lodge written proposal to the Company at 14/F, Golden Centre, 188 Des Voeux Road Central, Hong Kong, provided that the minimum length of the period, during which such written notice is given, shall be at least seven days and that the lodgement of such notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Enquiries about the Company may be put to the Board by contacting the Company or directly by raising the questions at an annual general meeting or extraordinary general meeting. The contact details of the Company are set out in the Company's website ([www.boyya.com.hk](http://www.boyya.com.hk)). Shareholders can also direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, whose address is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019 and up to the date of this annual report, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company ([www.boyya.com.hk](http://www.boyya.com.hk)) and that of the Stock Exchange.



# Environmental, Social and Governance Report

## INTRODUCTION

### *Purpose of the Report*

The Company is fully aware that the Company's performance, corporate growth and the commitment to social sustainable development are complementary and inseparable with each other. While striving to achieve the best returns for the Shareholders, we also take into account feedback from staff, to achieve the development of employees as well as the Company. The Company focuses on integrating its developments into society and contributing to the community, aiming at achieving harmonious development of both enterprise and society. The Board is responsible for maintaining appropriate and effective risk management and internal control systems of the Group to ensure compliance with the applicable rules and regulations.

2019 Environmental, Social and Governance ("**ESG Report**") is prepared in compliance with the mandatory requirements of the ESG Reporting Guide set out in Appendix 27 to the Listing Rules, aiming to disclose our responsibility for sustainable development in 2019 to investors and other stakeholders.

### *Reporting Scope*

The ESG Report encompasses operations of the Company's Shenzhen Office and Thailand Branch (i.e. Boyaa Thailand), covering ESG performance in the Reporting Period, unless stated otherwise. The Report has yet to collect and disclose the relevant data of all regional offices. Relevant information on regional offices has not yet been collected and therefore is not disclosed in the ESG Report.

## SOCIETY

### *1. Employment and Labor Practices*

In order to protect the legitimate rights and interests of employees, establish and maintain the Company's management mechanism, and to promote the legal and orderly development and expansion of the Company, the Company complies with and implements the "Labor Law of the People's Republic of China", "Labor Contract Law of the People's Republic of China", "Shenzhen Special Economic Zone Regulations on Labor Relations Promotion", "Implementation of Enterprise Workers Paid Annual Leave" and other relevant enterprise employment laws and regulations.

In 2019, the Company imposed stringent control over matters such as staff management, welfare and training. Meanwhile, it also conducted rigorous screening procedure for the purpose of retaining staff, and adjusted staffing structure. As of 31 December 2019, the total number of staff of the Company was 300, representing a year-on-year decrease of approximately 8.5%. The total number of new hires was 90, a year-on-year decrease of approximately 12.5%. The total turnover was 136, a year-on-year decrease of approximately 70.3%. The data indicate that the Company's management, welfare, staff training and other initiatives have had a positive impact on staff development and retention. In 2019, the staff turnover rate was approximately 45.3% and the rejection rate was approximately 0.3%.

We are a fair opportunity employer. Our employment practices are diversified and do not discriminate on grounds of gender, disability, pregnancy, family status, race, colour, religion, age, sexual orientation, nationality, trade union membership or other factors.

The Company complies with the rules in relation to working and resting hours according to the "Labor Law of the People's Republic of China". As an online card and board game service provider, we provide excellent service to our clients throughout the year. Our staff at customer services department work at unusual working hours and on public holidays to get ready for unexpected incidents at any time. We provided them with overtime payment and additional allowance.

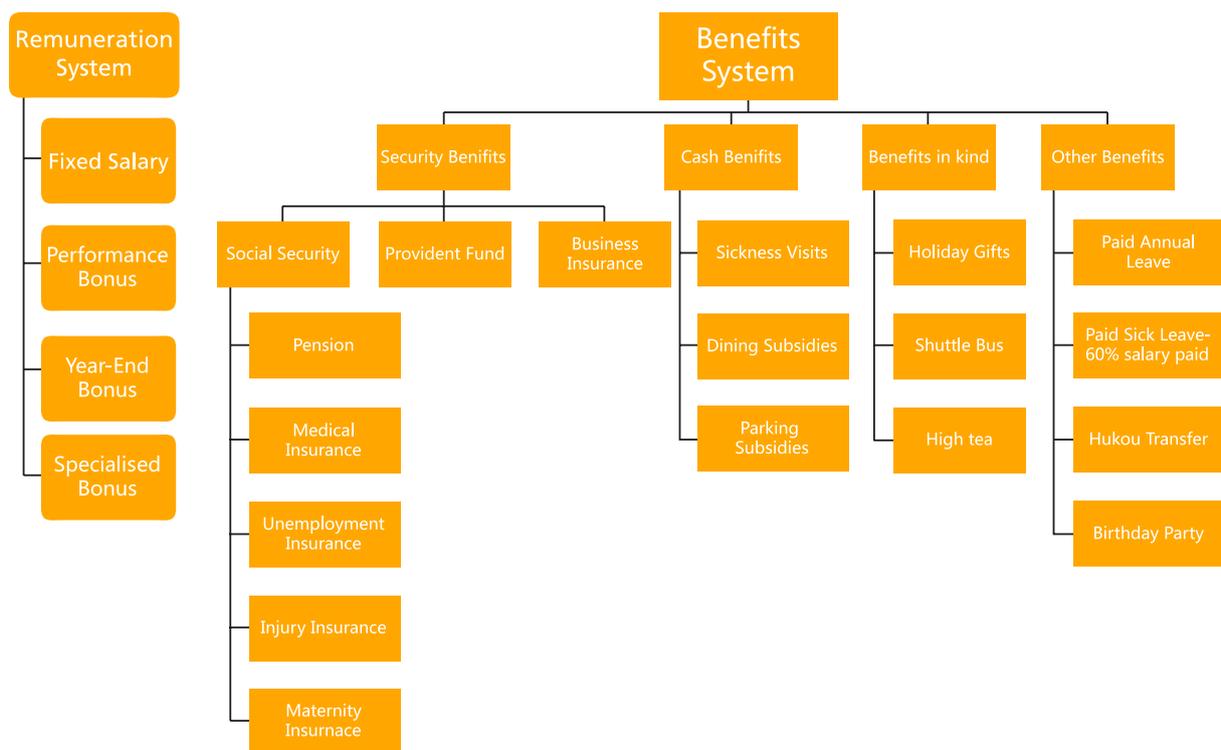


# Environmental, Social and Governance Report

For situations in which an employee has violated the Group’s regulations, or whose performance is consistently below an acceptable level, a range of procedures to terminate their employment contract have been established. In all cases, managers will consult the human resources department to ensure that applicable legal requirements are observed.

## 2. Remuneration and Benefits

The Company has implemented a comprehensive “people-oriented” payment and welfare benefits system for employees.



### Residence Schemes

To help our employees to meet their housing needs and relieve their personal burdens, including transportation costs, the Company has put in place a regulation which initiates an interest-free loan scheme available to our employees for purchasing their houses and cars. We also provide a free shuttle service for all employees to commute from home to the workplace.

### Bo Le Award

To meet the Company’s development goals and staffing requirements, we have set up a talent referral scheme to increase the motivation and enthusiasm of our employees for recommending talented individuals to join the Company. Various “Bo Le” awards are granted to staff members in the form of cash or physical prizes when a referral is successfully recruited, including the “Talent Hunt Award” (「慧眼識珠獎」), “Talent Referral Award” (「推薦達人獎」), “Golden Bole Award” (「金冠伯樂獎」) and “Bo Le Hero Award” (「伯樂英雄獎」), among others.



# Environmental, Social and Governance Report

## Warm Holiday Care

The Company elaborately prepares festival gifts for its employees on traditional festivals, such as Spring Festival, International Working Women's Day, Dragon Boat Festival, Children's Day and Mid-Autumn Festival. At the same time, various colorful festival activities are carried out simultaneously, such as the "Goddess Festival" series of activities, fellowship activities for the single, Oil Painting Experience and DIY Cake of Staff Birthday Party, fitness group classes, and team building activities, which are greatly popular among and embraced by staff and enhances their friendship, morale and sense of belonging.

The Company keeps innovating activities every year, hoping to give a surprise to staff and leave pleasant and lasting memories at the same time to enhance team cohesion power.





# Environmental, Social and Governance Report

## 3. Health and Safety

The Company has signed labor contracts with employees and participated in housing fund and various employee social security plans, including housing, pension, medical, work-related injury and unemployment benefit plans, providing practical protection for the staff. The Company also strictly complies with the “Women’s Rights and Benefits Protection Law”, “Work Injury Insurance Regulations” and all other relevant laws and regulations, being concerned about employees’ health, property and personal privacy, and continuing to optimise the working environment and labor management system.

The Company has implemented a green office environment policy to create a healthy and clean office environment. The office area is covered with plants to reduce the radiation hazards of electronic equipment. Professional institutions specialising in disinfection and sterilisation are employed on a monthly basis to perform thorough disinfection and sterilisation of the office so as to improve the quality of the office environment. Regarding water quality control, the activated carbon water filter is replaced every six months, and regular sampling of the water source is conducted to ensure quality. In catering services, the Company selects qualified suppliers who have appropriate licenses, fresh ingredients and operating environments in compliance with applicable regulation. The process is monitored in real-time to ensure food safety and employees’ health.

To strengthen the Company’s security management in office areas, enhance the safety awareness of employees, and smoothly implement the effective security measures, the Company has developed the “Corporate Office Environmental Management Practices” policy based on the principle of “Prevention-oriented, Elimination of Hidden Dangers”. The policy is intended to strictly prevent, control, and manage potential security risks and concerns.

- To regularly send out safety information to all employees through emails, radio, displays and tips to enhance security awareness;
- To set up a safety management committee to organise regular checks or spot checks, including daily inspections, targeted inspections or sample checks, troubleshooting and hazard investigations;
- To train members of safety management committee about fire control, internally launch fire control publicity and education program, perform regular checks on the Company’s fire control facilities, and ensure that all fire control and safety systems are in compliance with the fire control regulations and requirements of the fire control department;
- To strengthen the Company’s electricity safety management, strictly prohibit private cables and the use of high-power electrical equipment and implement thorough investigations of electrical usage beyond working hours;
- To ensure the Company office area is in full coverage of monitoring equipment, focusing on the layout of fire passages and main entrance hall, while installing an access control system, where visitors need to verify their identity before accessing the office area.



# Environmental, Social and Governance Report

## 4. *Development and Training*

To set up a corporate learning and development organisation, to support the implementation of the Company's strategies and business plan, and to efficiently develop outstanding management personnel and professionals for the Company, the Company has established a multi-dimensional training system, i.e. the Boyaa College Curriculum System. Training programs are designed to convey corporate culture and values, to convey management ideas and skills and to deliver professional knowledge and skills.

### ***Boyaa College Curriculum System***

The Boyaa College Curriculum System includes training programs designed for social-recruited trainees, school-recruited trainees and management members; guiding employees in understanding and recognising the corporate culture and values, helping understand the Company's businesses and their roles, helping new joiners quickly adapt to their duties in the work, improving the overall quality and management ability of managers, and enhancing staff's sense of responsibility, work efficiency and operational capacity.

- New generation training – Orientation training specifically for social-recruited trainees which helps them quickly assimilate into the Boyaa culture through a series of courses and occasional interactive sessions.
- Nestling training camp – Orientation training specifically for school-recruited trainees which includes the introduction to business systems, professional ethics, industrial game design challenges, experiences in corporate culture, and other projects which promote the rapid development of new trainees.
- Eagle training camp – To systematically enhance the Company's overall ideological quality and management capacity, in 2016, the camp was set up to include management case studies, experiential training, management proposal scenarios, and management salons, and was developed by senior management to engage grassroots cadres and potential future managers of the Company. The camp is designed to produce outstanding grassroots cadres for the Company.
- All employees of the enterprise develop training groups – For on-the-job employees, it aims to strengthen the staff's goal awareness, enhance staff's concept of taking the goals of customers and of the Company as the fundamental work orientation, improve the overall ability of staff, encourage teamwork spirit among staff, and enhance team work efficiency and quality. In 2019, a total of 280 staff attended this training.

At the same time, the Company has set up a corresponding professional channel for each position, for which the corresponding professional knowledge and skills courses are designed to develop exceptional talent and refine expertise. The Company has developed professional knowledge and skills courses to various rank levels to satisfy the channel learning and growth needs, and ultimately grow in line with business development with regular courses available. The Company also has a guided curriculum for special groups which designed to help them fast-track the acquisition of relevant skills, develop and improve communication skills, respond to the needs of the job, and grow in their personal development. It mainly includes mentor training, interviewer training and occasional special training.

In addition, the Company also has various group training programs in different forms and with varying content to meet the need for professionalism, knowledge and skills training, such as book reading group, topics salons, experiential training, Boyaa lectures, external training and others.



## Environmental, Social and Governance Report

### 5. *Labor Standards*

The Company complies with the “Regulation on Forbidding Employment of Child Labor” issued by the State Council and all other relevant laws and regulations. The human resources department performs strict identity verification of recruitment candidates. The Company is committed to implementing the relevant provisions to prohibit the employment of child and forced labor, and for the year ended 31 December 2019, the Company did not have any incidents of child or forced labor.

### 6. *Supply chain management*

To regulate the Company’s administrative procurement protocols, strengthen the management and supervision of the procurement management process, and with the principle of “Assure Quality, Save Costs, Block Loopholes, Avoid Losses, Improve Efficiency”, the Company has developed and strictly enforced “Administrative Procurement Management System”. The Company has adopted a centralised purchasing structure, and the administrative procurement department is responsible for the daily procurement needs of all departments in the Company. The procurement process includes strict price inquiry and tender management system. The administrative procurement department selects and assesses supplier suitability based on various indicators, such as the supplier’s qualifications or licenses, quality of goods, delivery competence, price level, technical ability, after-sales service, human resources, existing relationship, and so on. Before a purchase can be completed, approval must be obtained from the directors of relevant departments, i.e. the department of compliance and the department of finance.

As an online card and board game service provider, we mainly purchase office supplies and souvenirs on a small scale. For the year ended 31 December 2019, the Company has 226 suppliers, in which 183 are domestic suppliers and 43 are overseas suppliers. During the Reporting Period, we were not aware of (i) any material breach of the relevant environmental laws and regulations by any of the suppliers we engaged, nor (ii) any significant environmental and social risks in the provision of their services under the respective procurement contracts. Our purchase agreement also requires our suppliers to provide their qualification information.

### 7. *Product Liability*

The Company complies with all relevant laws and regulation relating to health and safety standards, advertising and labeling. The Company respects and protects intellectual property rights, always with an open and positive attitude to comply with intellectual property regulations. Regarding infringement, the Company also safeguards its legitimate rights and interests by adopting lawful measures. In 2019, the Company registered a total of 22 software copyrights and 24 works of art, authorised 33 patents, and obtained 27 registered trademarks.

As an excellent domestic gaming company, the Company treats users’ information with strict confidentiality and comply with the requirements of Ministry of Culture. We have strictly implemented the “Cybersecurity Law of the People’s Republic of China”, “Temporary Provisions of Online Game Management” and “Necessary Provisions on Online Game Service Format Agreement”, and established a series of policies to protect users privacy and personal information which were promoted and implemented within the games of the Company.

Customer’s consent must be obtained before we can use their personal data to deliver subscriber-related information, and customers can change their subscription and personal data preferences at any time by sending a request to our privacy compliance officer. The Group has no concluded cases of non-compliance issues according to personal information confidentiality regulations.



# Environmental, Social and Governance Report

## 7. Product Liability (Continued)

### Awards and Qualifications

The Company has obtained all necessary qualifications for the operation of online games according to relevant laws and regulations, including the “Internet Publishing License”, “Network Cultural Operation Permit” and “Value-added Telecommunication Business License”. At the same time, when a game is launched online, the Company obtains a publication number from the State Administration of Press, Publication, Radio, Film and Television. The game which is preset in the third party mobile terminal needs to obtain intelligent terminal preset software for the record.

In 2019, the Company won the “2019 Shenzhen Top 500 Enterprises” issued by Shenzhen Enterprise Confederation and Shenzhen Entrepreneur Association.

In 2019, the Company won the “2019 Social Responsibility Award for Listed Companies” of the 9th China Charity Festival.

In 2019, the Company’s game products “Boyaa Chinese Chess” and “Boyaa Mahjong Complete Works” won the “2019 Green Application” and “2019 My Favorite Green Application” issued by the Second Software Green Alliance respectively.





# Environmental, Social and Governance Report

## CREATE A LEADING MOBILE INTERNET CUSTOMER SERVICE PLATFORM

“Serve with a smile, serve at heart” is our service tenet. We provide users entertainment and at the same time, offering high service quality as well. This is not only the primary service philosophy Boyaa has put in place in the field of customers protection, but also the most important step in Boyaa’s customer protection.

In 2019, based on the original service model, Boyaa continued to optimise its service system and procedures, in a bid to establish a customer service system dedicated to the actual needs of its customers and provide them with new services in line with changing circumstances.

### **1. Continued to provide service by means of various channels**

In 2019, Boyaa’s customer service team continued to provide including 400 telephone, online customer service, WeChat and self-service support. We also have a clear flowchart procedure for handling user complaints to enhance users’ experience.

### **2. Constantly enhance customer’s satisfaction and set up multi-language service systems to cater for market demands**

In 2019, in order to satisfy market demands, Boyaa constantly improve its product experience, service procedures and strengthen professional skills of customer service personnel on a regular basis. We provide customer services to users from 15 countries in 16 languages with our quality service and powerful service system.

### **3. New Customers Service At Heart – advanced IT technology builds core productivity**

The whole basis of our customer service relies on our advanced customer service system, which improves our operation efficiency. To create a service system satisfying the demands of the mobile internet, in 2019, our customer service technology team conducted an all-round upgrade and organised a specialised development team to provide strong technical support for the new system development. Our new system contains four modules, achieving comprehensive and optimised experiences from service, monitor to management, which creates a concrete foundation for further improvements of customer service quality and efficiency.

For the year ended 31 December 2019, the Company has not received any material complaints.



# Environmental, Social and Governance Report

## USER INFORMATION SECURITY MANAGEMENT

The Company's business development is built upon our users, who play our games and use our services. The Company has implemented the tenet of "Share the Happiness Anywhere Anytime". Adhering to the principle of a happy and relaxing gaming experience, we are committed to offer safe, convenient and professional gaming services to users. The Company complies with all relevant laws and regulations and has implemented a comprehensive range of information-privacy and data-security procedures to protect individual privacy. Since we formulated the "Confidential Management System Regulation" to protect user information in 2012, we also set up "Boyaa High-voltage Line Management Regulation" to incorporate the leakage of confidential and sensitive information as our high voltage lines. In 2013, we established an information security management department and launched the "Information Security Code", which systematically manages different information security issues including user information, in order to optimise the management system.

In 2019, we hosted four training sessions regarding information security awareness, which effectively enhanced our staff awareness and raised players' loyalty to Boyaa games. In 2015, 2016, 2017, 2018 and 2019 for five consecutive years, we organised various online and offline gaming competitions, in which no complaint related to damage or loss of personal information was received.

### 8. *Anti-corruption*

The Company complies with all laws and requirements regarding anti-corruption and is committed to business ethics. We support lawful business operation and fair competition. We respect and protect intellectual property rights while standing against any form of corruption, bribery, money laundering, extortion and fraud. Also, we have set up a series of systems including the "Boyaa High-voltage Line Management Regulation" and the "Internal Audit System" which include anti-corruption policies and are monitored and managed by external and internal auditing teams.

- Set up an independent audit department with professional auditors who are rich in auditing skills and experiences, including fields in IT and security.
- The internal audit department of the Company set up a specific hotline, mailbox for its staff to complain upon discovering corruption and malpractices.
- Developed a standardised "Internal Audit System" to define boundaries of the duties, authority and professional ethics of the audit department, ensuring that it runs objectively and independently.
- Reported regularly to the Audit Committee to comply with its auditing requirements; optimised the auditing mechanism through regular testing and auditing on the Company's finances, procurement, fees, IT and security. When identified, issues are immediately reported to the relevant department for timely rectification.
- From time to time, an external independent audit team is hired to review the Company's internal control system and issue reports and suggestions for improvement.

We require our directors, senior management and employees to perform their duties with high ethical standards. We set up numerous complaint channels according to relevant guideline, and carry out regular programmes and training on integrity education in order to build an honest and corruption-free environment in the Company, and establish a long-lasting anti-money laundering, anti-bribery, anti-extortion and anti-fraud system.



# Environmental, Social and Governance Report

## 9. Community Investment and Volunteer Activities

In 2019, the Company donated chess and card products related supplies to the nursing homes.

In 2019, the Company donated 209 garbage sorting cans to a residential area in Changsha.

In 2019, the Company held a number of social welfare chess matches nationwide, and cooperated with Red Cross Society of China Shenzhen Branch in donating the donations raised on the spot to the Red Cross Society for its poor student aid activities.

### ENVIRONMENTAL ACTIVITIES

We always encourage our employees to take environmental protection seriously. Not only do we promote environmental protection throughout the management work but also encourage our staff to save energy and engage in environmental activities as part of their daily routines.

#### 1. 2019 "Boyaa Cup" chess and mahjong volunteer matches

From August to December 2019, the Company held six matches of Boyaa Cup in terms of Fight The Landlord, mahjong, chess and others in Changsha, Shenzhen, Sichuan and Yunnan, China, and started the combination of chess and card matches with public welfare. A total of RMB100,000 was raised, of which RMB20,000 was used to support garbage sorting and donate 209 classified garbage cans to a residential area in Changsha. The other RMB80,000 was donated to Red Cross Society of China Shenzhen Branch for poor student aid activities, helping more students enjoy fair and quality education opportunities. In concert with the Red Cross Society of China Shenzhen Branch, the Company called for more caring people in the society to join the campaign of aiding poor students, to give more attention and supports to poor children, and to let everyone's love warm every child in need of help.



Boyaa Cup Shenzhen



Donating garbage sorting cans



Boyaa Cup Changsha



Boyaa Cup Chess Match among Nine Universities in Yunnan



# Environmental, Social and Governance Report

## 2. Internal Environmental Protection and Energy Saving Promotion

The Company has emphasised in-house promotion regarding environmental awareness and energy saving. Under this philosophy, we encourage every staff member to contribute to environmental protection. We have placed a friendly tip reminding staff to "Make good use of each piece of paper" on each printer; we have also placed several tips with different slogans such as save paper, save energy, green outing, sustainable dining and others in many public areas in the Company, cultivating environmental awareness and encouraging them to put these slogans into practice.

## CHARITABLE ACTIVITIES

As a listed company in Hong Kong, the Company continuously strives to give back to society while achieving our corporate goals, and we are committed to corporate social responsibility.

### 1. Visiting the Elderly at the Nursing Homes of Nanshan District Welfare Center

In 2017, the Company set up its own volunteer team, which aimed to regularly organize and participate in various social welfare activities. On 21 September 2019, the Company and the social workers of Shenzhen Nanshan District Welfare Center jointly organized caring volunteer service. They went to the nursing homes to visit and accompany the elderly, with songs and dances performed on site in the activity room for the elderly. They also taught the elderly to learn to play poker and accompanied the elderly to play chess. After the activity, they also donated related materials of the Company's chess and card products to Nanshan District Welfare Center.



Invite the elderly with mobility difficulties and help pushing them to the activity room



Boyaa's volunteers sing to the elderly



Teach the elderly to play poker and accompany the elderly to play chess



Take a group photo as a souvenir



# Environmental, Social and Governance Report

## ENVIRONMENT

We have implemented scientific energy saving and emission reduction measures, which directly contribute to socioeconomic and sustainable development as well as corporate development and employee interest. Our main operation is office-based. Our major business operation is the development and operations of online card and board games, which does not involve significant and direct emission of air pollutants. We complied strictly with relevant environmental and emission laws and regulations, such as the “Environment Protection Law of the People’s Republic of China”, “Atmospheric Pollution Prevention and Control Law of the People’s Republic of China”, “Law of the People’s Republic of China on Prevention and Control of Pollution From Environmental Noise” and “Law of the People’s Republic of China on Conserving Energy”, in our operation. Our key pollutants are carbon dioxide and general waste, generated from electricity and water usage and etc.

We have instilled the principle of “Awareness Cultivation, Strict Management” and targeted to grow sustainably through saving on expenditure, reducing energy consumption, and preventing pollution. To strike a balance between corporate development and environmental protection, we have adopted strategies to save energy, recycle resources, preserve the environment and promote harmonious long-term human and natural development. Environmental protection and resource conservation are our main priorities in fulfilling our social responsibility. During 2019, through the Company’s active advocacy and promotion, there were reductions in the electricity consumption, water consumption, greenhouse gas emission and non-hazardous wastes emission while the efficiency of use of resources was enhanced. In 2019, our electricity consumption was 432,157 kWh (2018: 639,548 kWh) representing a year-on-year decrease of approximately 32.43%; total greenhouse gas emissions were approximately 503 tons (2018: approximately 563 tons) representing a year-on-year decrease of approximately 10.66%; our business operation does not generate hazardous waste, and during the year, the total amount of non-hazardous general waste was approximately 0.5 tons (2018: approximately 0.7 tons) representing a year-on-year decrease of approximately 28.57%; and water consumption was approximately 3,046 tons (2018: approximately 3,668 tons) representing a year-on-year decrease of approximately 16.96%. The Company did not use any packaging material in the Reporting Period.

### 1. Promoting and Cultivating Energy Conservation and Environmental Protection Awareness

- Promoted and lead energy conservation and environmental protection initiatives via email, radio, exhibition and tips. Facilitated practical environmental protection processes in our daily routine to raise employees’ environmental awareness and strengthen their consciousness regarding resource and energy saving.





# Environmental, Social and Governance Report

## **2. *Strengthening Supervision and Inspection, Eliminate Wasteful Behavior***

- Set up an inspection team to strengthen and improve the environmental protection and energy saving management systems. Regular inspections are carried out as well as random checks to monitor and meet energy saving and emission reduction targets; and
- Strengthened daily inspection and maintenance of pipes and electricity equipment, including monitoring data, analysing monthly abnormal data and identifying issues requiring attention.

## **3. *Implementing Energy Saving and Sustainable Measures, Increasing Energy Efficiency***

The Company placed rubbish bins in its working area and sends the non-reusable wastes to municipal government for central collection and treatment; sends the reusable wastes to waste collection station for recycle use.

- Phased out obsolete facilities and equipment, promote new energy-efficient technologies, adopted a replacement program of LED energy saving lamps to reduce energy consumption;
- Improved the procurement and supply system for office supplies, using energy efficient equipment and recycling old machines;
- Implemented a paperless office automation system where emails and documents are read and shared online to reduce paper consumption;
- Encouraged employees to bring their own water bottles and provide disposable water cups for visitors instead of disposable water bottles to reduce unreasonable waste of water resources; and
- Provided employees with a shuttle bus service to alleviate commuting issues, improved the efficiency of roads and transportation, relieved the traffic jams in the city, achieved shared-economy and contributed to reducing traffic congestion and emissions.



## Independent Auditor's Report



TO THE SHAREHOLDERS OF BOYAA INTERACTIVE INTERNATIONAL LIMITED

*(Incorporated in Cayman Islands with limited liability)*

### QUALIFIED OPINION

We have audited the consolidated financial statements of Boyaa Interactive International Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 84 to 154, which comprise the consolidated statement of financial position as at 31 December 2019, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”) and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

### BASIS FOR QUALIFIED OPINION

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of frozen investments at fair value through profit or loss and restricted bank deposits of RMB362,930,000 and RMB288,394,000 as at 31 December 2019 respectively and RMB435,473,000 and RMB195,460,000 as at 31 December 2018 respectively. There are no other satisfactory audit procedures that we could adopt to determine whether any allowances for non-recovery of these amounts should be made in the consolidated financial statements. Any adjustments to these figures might have a consequential effect on the Group’s consolidated financial performance for the years ended 31 December 2019 and 2018, the consolidated financial position of the Group as at 31 December 2019 and 2018, and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



# Independent Auditor's Report

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### *Revenue and cost of revenue*

Refer to Note 7 to the consolidated financial statements.

The Group has been engaged in development and operation of online card and board games. Revenue of the Group for the year ended 31 December 2019 of RMB323,816,000 was attributable to the online game business. The Group recognised revenue when consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered. The Group pays commissions to third party game distribution platforms and payment vendors. The commissions are also recognised in cost of revenue when the related services are rendered to the Group. Determining when revenue and cost of revenue arising from such online game business is complex and requires significant judgement involved.

Our audit procedures included, among others:

- Discussing with the management of the Group as well as both the Group's in-house and external information technology experts to understand the revenue recognition cycle;
- Testing controls over the Group's information technology revenue and cost of revenue systems on selected games;
- Scrutinising monthly statements issued by providers of platforms and online record of providers of platforms and payment vendors regarding receipt from paying players on a sample basis; and
- Reconciling to the Group's records and conducting substantive analytical procedures on revenue and cost of revenue.

We consider that the Group's estimates of the revenue and cost of revenue recognised are supported by the available evidence.

### *Investments at fair value through profit or loss*

Refer to Note 22 to the consolidated financial statements.

The Group measured its investments at fair value through profit or loss with the changes in fair value recognised in the consolidated profit or loss. This fair value measurement is significant to our audit because the balance of investments at fair value through profit or loss of RMB997,359,000 as at 31 December 2019 are material to the consolidated financial statements. In addition, the Group's fair value measurement involves application of judgement and is based on assumptions and estimates.



## Independent Auditor's Report

### KEY AUDIT MATTERS *(Continued)*

#### *Investments at fair value through profit or loss (Continued)*

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuers engaged by client;
- Obtaining the external valuation reports and meeting with the external valuers to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgements and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Checking arithmetical accuracy of the valuation model; and
- Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's fair value measurement of the investments at fair value through profit or loss are supported by the available evidence.

### OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the frozen investments at fair value through profit or loss of and restricted bank deposits. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

### RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirement of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



# Independent Auditor's Report

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

### **ZHONGHUI ANDA CPA Limited**

Certified Public Accountants

### **Yeung Hong Chun**

Audit Engagement Director

Practising Certificate Number P07374

Hong Kong, 29 May 2020



## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

|  | Notes | 2019<br>RMB'000  | 2018<br>RMB'000 |
|--|-------|------------------|-----------------|
| <b>Revenue</b>   | 7     | <b>323,816</b>   | 453,234         |
| Cost of revenue  |       | <b>(102,652)</b> | (148,264)       |
| <b>Gross profit</b>  |       | <b>221,164</b>   | 304,970         |
| Other (losses)/gains, net  | 8     | <b>(53,649)</b>  | 43,831          |
| Selling and marketing expenses   |       | <b>(20,845)</b>  | (27,904)        |
| Administrative expenses  |       | <b>(117,619)</b> | (134,272)       |
| <b>Operating profit</b>  |       | <b>29,051</b>    | 186,625         |
| Finance income   | 9     | <b>23,658</b>    | 20,586          |
| Finance costs  | 10    | <b>(1,874)</b>   | (2,000)         |
| Share of (losses)/profits of associates  | 20    | <b>(3,990)</b>   | 2,006           |
| <b>Profit before income tax</b>  |       | <b>46,845</b>    | 207,217         |
| Income tax expense   | 11    | <b>(13,085)</b>  | (5,685)         |
| <b>Profit for the year attributable to owners of the Company</b>                             | 12    | <b>33,760</b>    | 201,532         |
| <b>Other comprehensive expenses:</b>   |       |                  |                 |
| <i>Items that will not be reclassified to profit or loss:</i>                                |       |                  |                 |
| Changes in fair value of equity investments at fair value through other comprehensive income |       | <b>(30,695)</b>  | (96,525)        |
| Exchange differences on translating foreign operations                                       |       | <b>1,658</b>     | 3,348           |
| <i>Item that may be reclassified to profit or loss:</i>                                      |       |                  |                 |
| Exchange differences on translating foreign operations                                       |       | <b>9,353</b>     | 14,431          |
| <b>Other comprehensive expenses for the year, net of tax</b>                                 |       | <b>(19,684)</b>  | (78,746)        |
| <b>Total comprehensive income for the year attributable to owners of the Company</b>         |       | <b>14,076</b>    | 122,786         |
| <b>Earnings per share (RMB cents)</b>  | 15    |                  |                 |
| – Basic  |       | <b>5.05</b>      | 29.56           |
| – Diluted  |       | <b>5.05</b>      | 29.48           |



## Consolidated Statement of Financial Position

As at 31 December 2019

|   | Notes | 2019<br>RMB'000  | 2018<br>RMB'000<br>(Restated) |
|---|-------|------------------|-------------------------------|
| <b>ASSETS</b>   |       |                  |                               |
| <b>Non-current assets</b>   |       |                  |                               |
| Property, plant and equipment                                       | 16    | 41,792           | 37,442                        |
| Right-of-use assets   | 17    | 10,426           | –                             |
| Intangible assets   | 18    | 213              | 1,384                         |
| Investments in associates   | 20    | 12,793           | 16,964                        |
| Equity investments at fair value through other comprehensive income | 21    | 45,165           | 64,525                        |
| Investments at fair value through profit or loss                    | 22    | 495,012          | 589,331                       |
| Prepayments, deposits and other receivables                         | 24    | 37,860           | 25,435                        |
| Deferred tax assets   | 30    | 23,713           | 34,494                        |
|   |       | <b>666,974</b>   | 769,575                       |
| <b>Current assets</b>   |       |                  |                               |
| Trade receivables   | 23    | 18,001           | 18,365                        |
| Prepayments, deposits and other receivables                         | 24    | 41,922           | 28,262                        |
| Investments at fair value through profit or loss                    | 22    | 502,347          | 819,714                       |
| Restricted bank deposits  | 25    | 288,394          | 195,460                       |
| Term deposits   | 26    | 388,216          | 398,947                       |
| Bank and cash balances  | 26    | 487,301          | 296,890                       |
|   |       | <b>1,726,181</b> | 1,757,638                     |
| <b>Total assets</b>   |       | <b>2,393,155</b> | 2,527,213                     |



## Consolidated Statement of Financial Position

As at 31 December 2019

|  | Notes | 2019<br>RMB'000  | 2018<br>RMB'000<br>(Restated) |
|--|-------|------------------|-------------------------------|
| <b>EQUITY AND LIABILITIES</b>                |       |                  |                               |
| <b>Equity</b>                                |       |                  |                               |
| Share capital                                | 31    | 234              | 235                           |
| Reserves                                     | 33    | 2,110,009        | 2,264,799                     |
| <b>Total equity</b>                          |       | <b>2,110,243</b> | 2,265,034                     |
| <b>Liabilities</b>                           |       |                  |                               |
| <b>Non-current liabilities</b>               |       |                  |                               |
| Lease liabilities                            | 29    | 5,127            | –                             |
| Deferred tax liabilities                     | 30    | 7,696            | 18,811                        |
|  |       | <b>12,823</b>    | 18,811                        |
| <b>Current liabilities</b>                   |       |                  |                               |
| Trade and other payables                     | 27    | 72,057           | 69,363                        |
| Contract liabilities                         | 28    | 18,100           | 18,005                        |
| Lease liabilities                            | 29    | 4,896            | –                             |
| Current tax liabilities                      |       | 175,036          | 156,000                       |
|  |       | <b>270,089</b>   | 243,368                       |
| <b>Total liabilities</b>                     |       | <b>282,912</b>   | 262,179                       |
| <b>Total equity and liabilities</b>          |       | <b>2,393,155</b> | 2,527,213                     |
| <b>Net current assets</b>                    |       | <b>1,456,092</b> | 1,514,270                     |
| <b>Total assets less current liabilities</b> |       | <b>2,123,066</b> | 2,283,845                     |

The consolidated financial statements on pages 84 to 154 were approved and authorised for issue by the Board of Directors on 29 May 2020 and signed on its behalf by:

**Tao Ying**  
Director

**Dai Zhikang**  
Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

|   | Attributable to owners of the Company |                          |                               |                                       |                            |   |                              |   |                          |                             |                  |
|---|---------------------------------------|--------------------------|-------------------------------|---------------------------------------|----------------------------|---|------------------------------|---|--------------------------|-----------------------------|------------------|
|   | Share capital<br>RMB'000              | Share premium<br>RMB'000 | Repurchased shares<br>RMB'000 | Shares held for RSU scheme<br>RMB'000 | Capital reserve<br>RMB'000 | Foreign currency translation reserve<br>RMB'000 | Statutory reserve<br>RMB'000 | Share-based payments reserve<br>RMB'000 | Other reserve<br>RMB'000 | Retained profits<br>RMB'000 | Total<br>RMB'000 |
| At 1 January 2018                                   | 249                                   | 642,365                  | (27,283)                      | (15)                                  | 2,000                      | (4,300)   | 21,000                       | 92,511                                  | (118,984)                | 1,616,618                   | 2,224,161        |
| Total comprehensive income/ (expenses) for the year | -                                     | -                        | -                             | -                                     | -                          | 17,779  | -                            | -                                       | (96,525)                 | 201,532                     | 122,786          |
| Repurchase of ordinary shares                       | -                                     | -                        | (87,049)                      | -                                     | -                          | -   | -                            | -                                       | -                        | -                           | (87,049)         |
| Cancellation of ordinary shares                     | (14)                                  | (112,258)                | 112,272                       | -                                     | -                          | -   | -                            | -                                       | -                        | -                           | -                |
| Share-based payments                                |                                       |                          |                               |                                       |                            |   |                              |   |                          |                             |                  |
| - value of employee services                        | -                                     | -                        | -                             | -                                     | -                          | -   | -                            | 3,221                                   | -                        | -                           | 3,221            |
| - proceeds from shares issued                       | -                                     | 1,915                    | -                             | -                                     | -                          | -   | -                            | -                                       | -                        | -                           | 1,915            |
| - vesting of shares under RSU scheme                | -                                     | (1)                      | -                             | 1                                     | -                          | -   | -                            | -                                       | -                        | -                           | -                |
| - exercise and lapse of share options and RSUs      | -                                     | 11,700                   | -                             | -                                     | -                          | -   | -                            | (11,700)                                | -                        | -                           | -                |
| Transfer to statutory surplus reserve fund          | -                                     | -                        | -                             | -                                     | -                          | -   | 7,474                        | -                                       | -                        | (7,474)                     | -                |
| Changes in equity for the year                      | (14)                                  | (98,644)                 | 25,223                        | 1                                     | -                          | 17,779  | 7,474                        | (8,479)                                 | (96,525)                 | 194,058                     | 40,873           |
| At 31 December 2018                                 | 235                                   | 543,721                  | (2,060)                       | (14)                                  | 2,000                      | 13,479  | 28,474                       | 84,032                                  | (215,509)                | 1,810,676                   | 2,265,034        |
| At 1 January 2019                                   | 235                                   | 543,721                  | (2,060)                       | (14)                                  | 2,000                      | 13,479  | 28,474                       | 84,032                                  | (215,509)                | 1,810,676                   | 2,265,034        |
| Total comprehensive income/ (expenses) for the year | -                                     | -                        | -                             | -                                     | -                          | 11,011  | -                            | -                                       | (30,695)                 | 33,760                      | 14,076           |
| Repurchase of ordinary shares                       | -                                     | -                        | (6,794)                       | -                                     | -                          | -   | -                            | -                                       | -                        | -                           | (6,794)          |
| Cancellation of ordinary shares                     | (1)                                   | (3,989)                  | 3,990                         | -                                     | -                          | -   | -                            | -                                       | -                        | -                           | -                |
| Share-based payments                                |                                       |                          |                               |                                       |                            |   |                              |   |                          |                             |                  |
| - value of employee services                        | -                                     | -                        | -                             | -                                     | -                          | -   | -                            | 472                                     | -                        | -                           | 472              |
| - exercise and lapse of share options and RSUs      | -                                     | 3,783                    | -                             | -                                     | -                          | -   | -                            | (3,783)                                 | -                        | -                           | -                |
| Transfer to statutory surplus reserve fund          | -                                     | -                        | -                             | -                                     | -                          | -   | 5,516                        | -                                       | -                        | (5,516)                     | -                |
| Special dividend                                    | -                                     | (162,545)                | -                             | -                                     | -                          | -   | -                            | -                                       | -                        | -                           | (162,545)        |
| Changes in equity for the year                      | (1)                                   | (162,751)                | (2,804)                       | -                                     | -                          | 11,011  | 5,516                        | (3,311)                                 | (30,695)                 | 28,244                      | (154,791)        |
| At 31 December 2019                                 | 234                                   | 380,970                  | (4,864)                       | (14)                                  | 2,000                      | 24,490  | 33,990                       | 80,721                                  | (246,204)                | 1,838,920                   | 2,110,243        |



## Consolidated Statement of Cash Flows

For the year ended 31 December 2019

|  | 2019<br>RMB'000 | 2018<br>RMB'000<br>(Restated) |
|--|-----------------|-------------------------------|
| <b>Cash flows from operating activities</b>  |                 |                               |
| Profit before income tax   | 46,845          | 207,217                       |
| Adjustments for:   |                 |                               |
| Finance costs  | 1,874           | 2,000                         |
| Share of losses/(profits) of associates  | 3,990           | (2,006)                       |
| Interest income  | (23,658)        | (20,586)                      |
| Depreciation   | 13,065          | 8,245                         |
| Amortisation of intangible assets  | 1,171           | 1,404                         |
| Loss/(gain) on disposals of property, plant and equipment                          | 858             | (139)                         |
| Net foreign exchange losses  | 4,148           | 533                           |
| Share-based payments   | 472             | 3,221                         |
| Fair value loss/(gain) on investments at fair value through profit or loss         | 60,356          | (23,750)                      |
| Dividends from equity investments at fair value through other comprehensive income | –               | (134)                         |
| Dividends from investments at fair value through profit or loss                    | (2,281)         | (12,313)                      |
| Loss allowance provision for trade receivables                                     | 1,065           | 6,314                         |
| Loss allowance provision for loan to an associate                                  | –               | 2,000                         |
| Loss allowance provision for loans to employees                                    | 128             | 1,308                         |
| Operating profit before changes in working capital                                 | 108,033         | 173,314                       |
| Change in trade receivables  | (1,156)         | 11,677                        |
| Change in prepayments, deposits and other receivables                              | (30,194)        | 29,296                        |
| Change in trade and other payables   | 2,341           | (23,758)                      |
| Change in contract liabilities   | (1,505)         | (4,717)                       |
| Cash generated from operating activities   | 77,519          | 185,812                       |
| Income tax paid  | (6,062)         | (24,727)                      |
| Lease interests paid   | (659)           | –                             |
| <b>Net cash generated from operating activities</b>                                | <b>70,798</b>   | <b>161,085</b>                |



## Consolidated Statement of Cash Flows

For the year ended 31 December 2019

|  | Note | 2019<br>RMB'000  | 2018<br>RMB'000<br>(Restated) |
|--|------|------------------|-------------------------------|
| <b>Cash flows from investing activities</b>  |      |                  |                               |
| Placement of restricted bank deposits  |      | (92,934)         | (195,460)                     |
| Placement of term deposits with original maturities over three months              |      | (587,783)        | (713,510)                     |
| Proceeds from maturity of term deposits with original maturities over three months |      | 598,949          | 438,683                       |
| Interest received  |      | 26,064           | 20,904                        |
| Dividends from equity investments at fair value through other comprehensive income |      | –                | 134                           |
| Purchases of equity investments at fair value through other comprehensive income   |      | –                | (28,352)                      |
| Dividends from investments at fair value through profit or loss                    |      | 2,281            | 12,313                        |
| Purchases of investments at fair value through profit or loss                      |      | (895,673)        | (2,512,463)                   |
| Proceeds from settlements of investments at fair value through profit or loss      |      | 1,251,355        | 2,327,631                     |
| Purchases of property, plant and equipment   |      | (13,929)         | (8,862)                       |
| Proceeds from disposals of property, plant and equipment                           |      | 340              | 1,406                         |
| <b>Net cash generated from/(used in) investing activities</b>                      |      | <b>288,670</b>   | <b>(657,576)</b>              |
| <b>Cash flows from financing activities</b>  |      |                  |                               |
| Repayment of lease liabilities   | 35   | (4,661)          | –                             |
| Proceeds from issue of ordinary shares   |      | –                | 1,915                         |
| Repurchase of ordinary shares  |      | (6,794)          | (87,049)                      |
| Special dividend paid  |      | (162,545)        | –                             |
| <b>Net cash used in financing activities</b>                                       |      | <b>(174,000)</b> | <b>(85,134)</b>               |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                        |      |                  |                               |
| Effect of foreign exchange rate changes  |      | 4,943            | 20,322                        |
| Cash and cash equivalents at beginning of the year                                 |      | 296,890          | 858,193                       |
| <b>Cash and cash equivalents at end of the year</b>                                |      | <b>487,301</b>   | <b>296,890</b>                |
| <b>Analysis of cash and cash equivalents</b>                                       |      |                  |                               |
| Bank and cash balances   |      | 487,301          | 296,890                       |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 1. GENERAL INFORMATION

Boyaa Interactive International Limited (the “**Company**”) was incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business in Hong Kong is 14/F., Golden Centre, 188 Des Voeux Road, Central, Hong Kong. The address of its headquarters is 8/F, Block E1, International E Town, TCL Industry Park, 1001 Zhong Shan Yuan Road, Nanshan District, Shenzhen, the People’s Republic of China (the “**PRC**”). The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the consolidated financial statements.

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company and its subsidiaries (collectively referred to as the “**Group**”) has adopted all the new and revised International Financial Reporting Standards (“**IFRSs**”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. IFRSs comprise International Financial Reporting Standards (“**IFRS**”); International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years except as stated below.

The Group has adopted IFRS 16 “Lease” from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the consolidated statement of financial position on 1 January 2019.

### (a) Adjustments recognised on adoption of IFRS 16 “Lease”

|   | RMB’000 |
|---|---------|
| Operating lease commitments disclosed at 31 December 2018   | 17,998  |
| Discounted using the lessee’s incremental borrowing rate of 6.8% p.a.<br>at the date of initial application | 16,522  |
| Less: short-term leases recognised on a straight-line basis as expense                                      | (3,638) |
| Lease liabilities recognised at 1 January 2019  | 12,884  |
| Of which are:   |         |
| Current lease liabilities   | 3,660   |
| Non-current lease liabilities   | 9,224   |
|   | 12,884  |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

### *(a) Adjustments recognised on adoption of IFRS 16 "Lease" (Continued)*

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 1 January 2019.

The change in accounting policy increase right-of-use assets and lease liabilities by RMB12,884,000 on 1 January 2019.

In applying IFRS 16 "Lease" for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 "Lease" and IFRIC 4 "Determining whether an Arrangement contains a Lease".

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs issued by International Accounting Standards Board, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by investments which are carried at their fair values.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

### **Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Associates*

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investments in associates is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Foreign currency translation*

#### **(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is United States dollars ("USD"). The directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors as the game development and operation of the Group have been within the PRC.

#### **(b) Transactions and balances in each entity's financial statements**

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### **(c) Translation on consolidation**

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the exchange reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Property, plant and equipment**

Buildings mainly comprise offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

|                         |   |
|-------------------------|---|
| Buildings               | 20 years  |
| Furniture and equipment | 3 - 5 years   |
| Motor vehicles          | 4 years   |
| Leasehold improvements  | Over the shorter of 3 years or remaining terms of the lease |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

### **Leases**

#### **Policy applicable from 1 January 2019**

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal useful lives are as follows:

|            |         |
|------------|---------|
| Buildings  | 5 years |
| Equipments | 3 years |

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Leases (Continued)*

#### *Policy applicable from 1 January 2019 (Continued)*

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$5,000.

#### *Policy applicable before 1 January 2019*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

### *Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### *Computer software*

Computer software is initially recognised and measured at cost less amortisation. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised over their estimated useful lives of 5 years.

### *Contractual customer relationships*

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of 5 years.

### *Recognition and derecognition of financial instruments*

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

### *Financial assets*

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Financial assets (Continued)*

Financial assets of the Group are classified as under the following categories:

- Financial assets at amortised cost;
- Equity investments at fair value through other comprehensive income; and
- Investments at fair value through profit or loss.

#### **(a) Financial assets at amortised cost**

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

#### **(b) Equity investments at fair value through other comprehensive income**

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

#### **(c) Investments at fair value through profit or loss**

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### ***Loss allowances for expected credit losses***

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“**lifetime expected credit losses**”) for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

### ***Cash and cash equivalents***

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents.

### ***Financial liabilities and equity instruments***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### ***Trade and other payables***

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Revenue from contracts with customers*

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

### *Other revenue*

Interest income is recognised using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

### *Employee benefits*

#### **(a) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Employee benefits (Continued)*

#### **(b) Pension obligations**

The Group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

#### **(c) Termination benefits**

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

### *Share-based payments*

The Group operates a number of equity-settled share-based compensation plan under which share awards are granted to certain directors and employees as part of their remuneration packages.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value of the employee services received in exchange for the grant of the share-based awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share-based awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the numbers of share options and restricted share units (“RSU”) that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### ***Government grants***

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

### ***Taxation***

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Segment reporting*

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### *Related parties*

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Impairment of assets*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except deferred tax assets, investments and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### *Events after the reporting period*

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### *Critical judgements in applying accounting policies*

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### **(a) Contractual Arrangements**

The operations of the Group were initially conducted through Shenzhen Dong Fang Bo Ya Technology Co., Limited, a limited liability company established in the PRC by two shareholders of the Company, namely Mr. Zhang Wei and Mr. Dai Zhikang, on 13 February 2004.

Pursuant to applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting online games business and are restricted to conduct value-added telecommunications services. In order to make investments into the business of the Group, the Company established a subsidiary, Boyaa On-line Game Development (Shenzhen) Co., Limited, which is a wholly foreign owned enterprise incorporated in the PRC on 29 November 2010.

Boyaa On-line Game Development (Shenzhen) Co., Limited, Shenzhen Dong Fang Bo Ya Technology Co., Limited and its registered owners entered into a series of contractual arrangements (the “**Contractual Arrangements**”) entered into on 15 May 2013, which enable Boyaa On-line Game Development (Shenzhen) Co., Limited and the Group to:

- exercise effective financial and operational control over Shenzhen Dong Fang Bo Ya Technology Co., Limited;
- exercise all owners’ voting rights of Shenzhen Dong Fang Bo Ya Technology Co., Limited;
- receive substantially all of the economic interest returns generated by Shenzhen Dong Fang Bo Ya Technology Co., Limited in consideration for the business support, technical and consulting services provided by Boyaa On-line Game Development (Shenzhen) Co., Limited;
- obtain an irrevocable and exclusive right to purchase all or part of equity interests in Shenzhen Dong Fang Bo Ya Technology Co., Limited from the respective owners at a minimum purchase price permitted under PRC laws and regulations, and all or part of the assets of Shenzhen Dong Fang Bo Ya Technology Co., Limited at the net book value of such assets or such minimum purchase price permitted under PRC laws and regulations. Boyaa On-line Game Development (Shenzhen) Co., Limited may exercise such options at any time until it has acquired all equity interests and/or all assets of Shenzhen Dong Fang Bo Ya Technology Co., Limited; and
- obtain a pledge over the entire equity interest of Shenzhen Dong Fang Bo Ya Technology Co., Limited from their respective owners as collateral security for all of Shenzhen Dong Fang Bo Ya Technology Co., Limited’s payments due to Boyaa On-line Game Development (Shenzhen) Co., Limited and to secure performance of Shenzhen Dong Fang Bo Ya Technology Co., Limited’s obligations under the Contractual Arrangements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

### *Critical judgements in applying accounting policies (Continued)*

#### **(a) Contractual Arrangements (Continued)**

The Group do not hold any equity interests in Shenzhen Dong Fang Bo Ya Technology Co., Limited. Nevertheless, under the Contractual Agreements entered into between Boyaa On-line Game Development (Shenzhen) Co., Limited, Shenzhen Dong Fang Bo Ya Technology Co., Limited and its owners, the management determines that the Group has the power to govern the financial and operating policies of Shenzhen Dong Fang Bo Ya Technology Co., Limited so as to obtain benefits from its activities. As such, Shenzhen Dong Fang Bo Ya Technology Co., Limited is accounted for as subsidiary of the Group for accounting purposes.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Shenzhen Dong Fang Bo Ya Technology Co., Limited and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Shenzhen Dong Fang Bo Ya Technology Co., Limited. The directors of the Company, based on the advice of its legal advisor, consider that the Contractual Arrangements among Boyaa On-line Game Development (Shenzhen) Co., Limited, Shenzhen Dong Fang Bo Ya Technology Co., Limited and its equity holders are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

#### **(b) Non-consolidation of entities with 99% equity interests**

The directors have determined that the Group does not have control over a limited partnership namely Jiaying Boyaa ChunLei Equity Investments Limited Partnership Enterprise ("**Jiaying Boyaa**"). Jiaying Boyaa is not a controlled entity because the Group does not have power over the entity to affect its returns, despite the Group having contributed 99% of total contributions into the entity. The Group as limited partner is purely an investor role and the decisions relating to the daily operations and investment strategy and activities of Jiaying Boyaa are made solely by, and the decision making power is fully vested in, the general partner, an independent third party. The investment has a fair value of RMB268,200,000 (2018: RMB312,800,000). Details please refer to note 22(ii) to the consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

### *Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### **(a) Revenue recognition**

The Group recognised revenue when consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered. Determining when revenue arising from such online game business is recognized is complex and requires significant judgement. Management has arrived at this judgement after taking into account the nature and characteristics of virtual items, and the ways of the players within the games to benefit from these virtual items. Future patterns of virtual items beneficial to the paying players may differ from the historical patterns and therefore the time of revenue recognition may change in the future.

#### **(b) Income taxes**

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### **(c) Fair value of investments**

In the absence of quoted market prices in an active market, the Directors estimate the fair value of the Group's non-quoted investments in asset management plans, equity investment partnerships and wealth management products, details of which are set out in note 6 to the consolidated financial statements, by considering information from a variety of sources, including the latest published financial information, the historical data on market volatility as well as the price and industry and sector performance of the Group's non-quoted investments in asset management plans, equity investment partnerships and wealth management products.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are denominated in either RMB or USD. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

For the PRC subsidiaries whose functional currencies are RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax profit for the year ended 31 December 2019 of the Group would have been RMB1,447,000 (2018: RMB1,569,000) higher/lower, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. For group companies outside of the PRC whose functional currencies are USD or Hong Kong dollars ("HK\$"), if RMB had strengthened/weakened by 5% against USD and HK\$ with all other variables held constant, the other comprehensive income for the year ended 31 December 2019 would have been RMB16,845,000 (2018: RMB20,983,000) higher/lower mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD and HK\$.

### (b) Price risk

The Group's investments at fair value through profit or loss and equity investments at fair value through other comprehensive income are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The Directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

At 31 December 2019, if the fair value of investments at fair value through profit or loss increase/decrease by 5%, profit after tax for the year would have been RMB42,388,000 (2018: RMB60,353,000) higher/lower. If the fair value of equity investments at fair value through other comprehensive income increase/decrease by 5%, other comprehensive income for the year would have been RMB2,258,000 (2018: RMB2,939,000) higher/lower.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 5. FINANCIAL RISK MANAGEMENT *(Continued)*

### *(c) Credit risk*

The carrying amount of the bank and cash balances, term deposits, restricted bank deposits, trade and other receivables, and investments in wealth management products included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on bank and cash balances, term deposits, restricted bank deposits and investments in wealth management products are limited because the counterparties are reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

Trade receivables are due from game distribution platforms and third-party payment vendors in cooperation with the Group. If the strategic relationship with game distribution platforms and third-party payment vendors is terminated or scaled-back; or if the game distribution platforms and third-party payment vendors alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's game publishing receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the game distribution platforms and third-party payment vendors to ensure the effective credit control. In view of the history of cooperation with the game distribution platforms and third-party payment vendors and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivable balances due from the game distribution platforms and third-party payment vendors is low.

For other receivables, the majority of the balances were expected to be settled within 12 months after the end of the reporting period based on the historical data and forward-looking information. The management of the Group did not consider there have been an significant increase in credit risk at the end of the reporting period since the initial recognition. As at 31 December 2019, the management of the Group considered the expected credit loss for these other receivables was insignificant.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Credit risk (Continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers; and
- employment relationship with the employee borrower.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

| Category       | Definition                                     | Loss provision           |
|----------------|--|--------------------------|
| Performing     | Low risk of default and strong capacity to pay | 12 month expected losses |
| Non-performing | Significant increase in credit risk            | Lifetime expected losses |

All of these loans are considered to have low risk and under the "Performing" category because they have a low risk of default and have strong ability to meet their obligations.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

|                            | Less than<br>1 year<br>RMB'000 | Between<br>1 and 2 years<br>RMB'000 | Between<br>2 and 5 years<br>RMB'000 |
|----------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| <b>At 31 December 2019</b> |                                |                                     |                                     |
| Trade and other payables   | 28,842                         | –                                   | –                                   |
| Lease liabilities          | 5,393                          | 4,356                               | 995                                 |
|                            | <b>34,235</b>                  | <b>4,356</b>                        | <b>995</b>                          |
| <b>At 31 December 2018</b> |                                |                                     |                                     |
| Trade and other payables   | 26,110                         | –                                   | –                                   |

### (e) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group's bank deposits bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Categories of financial instruments at 31 December

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Financial assets:</b>   |                 |                 |
| Investments at fair value through profit or loss:                        |                 |                 |
| – Mandatorily measured   | 997,359         | 1,409,045       |
| Equity investments at fair value through other comprehensive income      | 45,165          | 64,525          |
| Financial assets at amortised cost (including cash and cash equivalents) | 1,225,953       | 945,702         |
| <b>Financial liabilities:</b>  |                 |                 |
| Financial liabilities at amortised cost                                  | 28,842          | 26,110          |

### (g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 6. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 6. FAIR VALUE MEASUREMENTS (Continued)

### (a) Disclosures of level in fair value hierarchy at 31 December:

| Description   | Fair value measurements using: |          |                | Total            |
|---|--------------------------------|----------|----------------|------------------|
|   | Level 1                        | Level 2  | Level 3        | 2019             |
|   | RMB'000                        | RMB'000  | RMB'000        | RMB'000          |
| <b>Recurring fair value measurements:</b>                           |                                |          |                |                  |
| Investments at fair value through profit or loss                    |                                |          |                |                  |
| – Asset management plans  | –                              | –        | 102,000        | 102,000          |
| – Equity investment partnerships                                    | –                              | –        | 399,812        | 399,812          |
| – Wealth management products  | –                              | –        | 495,547        | 495,547          |
|   | –                              | –        | 997,359        | 997,359          |
| Equity investments at fair value through other comprehensive income |                                |          |                |                  |
| – Listed equity securities in PRC                                   | 19,100                         | –        | –              | 19,100           |
| – Listed equity securities in Hong Kong                             | 16,416                         | –        | –              | 16,416           |
| – Listed equity securities in USA                                   | 7,232                          | –        | –              | 7,232            |
| – Unlisted equity investments                                       | –                              | –        | 1,518          | 1,518            |
| – Unlisted preference shares of private companies                   | –                              | –        | 899            | 899              |
|   | 42,748                         | –        | 2,417          | 45,165           |
| <b>Total recurring fair value measurements</b>                      | <b>42,748</b>                  | <b>–</b> | <b>999,776</b> | <b>1,042,524</b> |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 6. FAIR VALUE MEASUREMENTS (Continued)

### (a) Disclosures of level in fair value hierarchy at 31 December: (Continued)

| Description   | Fair value measurements using: |                    |                    | Total            |
|---|--------------------------------|--------------------|--------------------|------------------|
|   | Level 1<br>RMB'000             | Level 2<br>RMB'000 | Level 3<br>RMB'000 | 2018<br>RMB'000  |
| <b>Recurring fair value measurements:</b>                           |                                |                    |                    |                  |
| Investments at fair value through profit or loss                    |                                |                    |                    |                  |
| – Asset management plans  | –                              | –                  | 110,908            | 110,908          |
| – Equity investment partnerships                                    | –                              | –                  | 485,298            | 485,298          |
| – Wealth management products  | –                              | –                  | 812,839            | 812,839          |
|   | –                              | –                  | 1,409,045          | 1,409,045        |
| Equity investments at fair value through other comprehensive income |                                |                    |                    |                  |
| – Listed equity securities in PRC                                   | 34,994                         | –                  | –                  | 34,994           |
| – Listed equity securities in Hong Kong                             | 19,245                         | –                  | –                  | 19,245           |
| – Listed equity securities in USA                                   | 6,480                          | –                  | –                  | 6,480            |
| – Unlisted equity investments                                       | –                              | –                  | 3,035              | 3,035            |
| – Unlisted preference shares of private companies                   | –                              | –                  | 771                | 771              |
|   | 60,719                         | –                  | 3,806              | 64,525           |
| <b>Total recurring fair value measurements</b>                      | <b>60,719</b>                  | <b>–</b>           | <b>1,412,851</b>   | <b>1,473,570</b> |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 6. FAIR VALUE MEASUREMENTS (Continued)

(b) Reconciliation of assets and liabilities measured at fair value based on level 3:

| Description   | Investments<br>at fair value<br>through<br>profit or loss<br>RMB'000 | Equity<br>investments<br>at fair value<br>through other<br>comprehensive<br>income<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|------------------|
| At 1 January 2019   | 1,409,045  | 3,806   | 1,412,851        |
| Total gains or losses recognised  |  |   |                  |
| in profit or loss (#)   | (60,356)   | –   | (60,356)         |
| in other comprehensive income   | –  | (1,400)   | (1,400)          |
| Purchases   | 895,673  | –   | 895,673          |
| Settlements   | (1,251,355)  | –   | (1,251,355)      |
| Currency translation differences  | 4,352  | 11  | 4,363            |
| At 31 December 2019   | 997,359  | 2,417   | 999,776          |
| (#) Include gains or losses for assets<br>held at end of reporting period | (72,453)   | –   | (72,453)         |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 6. FAIR VALUE MEASUREMENTS (Continued)

#### (b) Reconciliation of assets and liabilities measured at fair value based on level 3: (Continued)

| Description   | Investments<br>at fair value<br>through<br>profit or loss<br>RMB'000 | Equity<br>investments<br>at fair value<br>through other<br>comprehensive<br>income<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|------------------|
| At 1 January 2018   | 1,219,084  | 14,082  | 1,233,166        |
| Total gains or losses recognised  |  |   |                  |
| in profit or loss (#)   | 23,750   | –   | 23,750           |
| in other comprehensive income   | –  | (13,770)  | (13,770)         |
| Purchases   | 2,553,463  | 3,000   | 2,556,463        |
| Settlements   | (2,391,272)  | –   | (2,391,272)      |
| Currency translation differences  | 4,020  | 494   | 4,514            |
| At 31 December 2018   | 1,409,045  | 3,806   | 1,412,851        |
| (#) Include gains or losses for assets<br>held at end of reporting period | (14,217)   | –   | (14,217)         |

The total gains or losses recognised in other comprehensive income are presented in other reserve in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other (losses)/gains in the consolidated statement of profit or loss and other comprehensive income.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 6. FAIR VALUE MEASUREMENTS (Continued)

### (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019:

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each reporting period, the finance department analyzes the movements in the values of financial instruments and determines the valuation methodology and major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

For level 3 fair value measurements, the Group will normally engage an independent professional valuer with the recognised professional qualifications and recent experience to perform the valuations.

#### Level 3 fair value measurements

| Description  | Valuation technique       | Unobservable inputs            | Range           | Effect on fair value for increase of inputs | Fair value 2019<br>RMB'000 |
|--|---------------------------|--------------------------------|-----------------|---|----------------------------|
| <i>Investments at fair value through profit or loss</i>                    |                           |                                |                 |   |                            |
| Asset management plans   | Discount cash flows model | Credit risk spread             | 13.06%          | Decrease                                    | 102,000                    |
| Equity investment partnerships   | Market approach           | Lack of marketability discount | 15.80%          | Decrease                                    | 399,812                    |
|  | Discount cash flows model | Discount rate                  | 16.00% - 21.00% | Decrease                                    |                            |
|  |                           | Growth rate                    | 3.00%           | Increase                                    |                            |
| Wealth management products   | Discount cash flows model | Estimated return               | 3.00% - 7.70%   | Increase                                    | 495,547                    |
| <i>Equity investments at fair value through other comprehensive income</i> |                           |                                |                 |   |                            |
| Unlisted equity investments  | Discount cash flows model | Discount rate                  | 16.00%          | Decrease                                    | 1,518                      |
|  |                           | Growth rate                    | 3.00%           | Increase                                    |                            |
| Unlisted preference shares of private companies                            | Market approach           | Lack of marketability discount | 15.80%          | Decrease                                    | 899                        |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 6. FAIR VALUE MEASUREMENTS (Continued)

### (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019: (Continued)

#### Level 3 fair value measurements (Continued)

| Description  | Valuation technique       | Unobservable inputs            | Range           | Effect on fair value for increase of inputs | Fair value 2018<br>RMB'000 |
|--|---------------------------|--------------------------------|-----------------|---|----------------------------|
| <i>Investments at fair value through profit or loss</i>                    |                           |                                |                 |   |                            |
| Asset management plans   | Discount cash flows model | Credit risk spread             | 9.13%           | Decrease                                    | 110,908                    |
| Equity investment partnerships   | Market approach           | Lack of marketability discount | 15.80%          | Decrease                                    | 485,298                    |
|  | Discount cash flows model | Discount rate                  | 13.00% - 17.00% | Decrease                                    |                            |
|  |                           | Growth rate                    | 3.00%           | Increase                                    |                            |
| Wealth management products   | Discount cash flows model | Estimated return               | 2.90% - 5.20%   | Increase                                    | 812,839                    |
| <i>Equity investments at fair value through other comprehensive income</i> |                           |                                |                 |   |                            |
| Unlisted equity investments  | Discount cash flows model | Discount rate                  | 16.00%          | Decrease                                    | 3,035                      |
|  |                           | Growth rate                    | 3.00%           | Increase                                    |                            |
| Unlisted preference shares of private companies                            | Market approach           | Lack of marketability discount | 15.80%          | Decrease                                    | 771                        |

During the two years, there were no changes in the valuation techniques used.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 7. REVENUE AND SEGMENT INFORMATION

|                                       | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Web-based games                       | 141,840         | 168,362         |
| Mobile games                          | 181,976         | 284,872         |
| Revenue from contracts with customers | <b>323,816</b>  | 453,234         |

**Disaggregation of revenue from contracts with customers:**

### *Timing of revenue recognition*

|                    | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------|-----------------|-----------------|
| At a point of time | <b>323,816</b>  | 453,234         |

The directors of the Company consider that the Group's operations are operated and managed as a single segment. The directors of the Company, being the chief operating decision maker of the Group, review the operating results of the Group as a whole when making decisions about resource allocations and assessing performances. Hence it is determined that the Group has only one operating segment. Accordingly no segment information is presented.

The Group offers its games in various language versions in order to enable game players to play the games in different geographical locations. The Group's operations are substantially located in the PRC (including Hong Kong). A breakdown of revenue derived from different languages versions of the Group's games is as follows:

|                    | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------|-----------------|-----------------|
| Simplified Chinese | 42,199          | 143,658         |
| Other languages    | 281,617         | 309,576         |
|                    | <b>323,816</b>  | 453,234         |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Sales of game tokens or other virtual items*

The Group's revenue is primarily derived from the sales of in-game virtual tokens ("**Game Tokens**") and other virtual items in its game development operations ("**Game Development**") through cooperation with various third-party game distribution platforms and payment vendors. These game distribution platforms include major social networking websites (such as Facebook), online application stores (such as Apple Inc.'s App Store and Google Play installed in mobile telecommunications devices), web-based and mobile game portals, telecommunication operators and pre-paid game card distributors in certain countries and regions (collectively referred to as "**Platforms**").

In cooperation with Platforms, the Group is responsible for hosting the games, providing on-going updates of new contents, technical support for the operations of the games, as well as preventing, detecting and resolving in-game cheating and hacking activities. Platforms are responsible for distribution, marketing, platform maintenance, payer authentication and payment collections related to the games.

The Group's games are free to play and players can purchase Game Tokens or other virtual items for better in-game experience. Players purchase the Group's Game Tokens or other virtual items ("**Paying Players**") through Platforms' own charging systems or their accounts maintained with third party payment vendors, or charging from the prepaid game cards they purchased. Generally, the payments received for purchasing the Group's Game Tokens or other virtual items are non-refundable and the related contracts are non-cancellable. Platforms and third party payment vendors collect the payment from the Paying Players and remit the cash net of commission charges which are pre-determined to the Group according to the relevant terms of the agreements entered into between the Group and Platforms or third party payment vendors.

Upon the sales of Game Tokens or other virtual items, the Group typically has an implied obligation to provide the services which enable the Game Tokens or other virtual items to be displayed or used in the games. As a result, the proceeds received from sales of Game Tokens or other virtual items are initially recorded as service fees prepaid by game players and included in contract liabilities, while the proceeds received from sales of prepaid game cards are initially recorded as advance received from sales of prepaid game cards and included in contract liabilities. This advance is then transferred to service fees prepaid by game players when the game cards are activated by the players, i.e. the first time the players use the prepaid game cards to credit their game accounts. The attributable portion of the service fees prepaid by game players relating to values of the Game Tokens consumed and other virtual items purchased are immediately recognised as revenue only when the services are rendered to the respective Paying Players.

In the current and comparative period, the Group render services to Paying Players to enhance their in-game experience through their consumption of virtual items. These virtual items are extinguished after consumption in the form of fixed charges levied on each round of games played. The Paying Players will not continue to benefit from the virtual items thereafter and the Group will not have further obligations to the Paying Players after the virtual items consumed. Revenue is immediately recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered, which was taken to be the point in time.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### *Principal and agent consideration*

The Group has evaluated the roles and responsibilities of the Group and Platforms or third party payment vendors in the delivery of game experience to the Paying Players in order to determine whether or not the Group acts as the principal or as an agent in the arrangement with each party respectively. The determination of whether to record the revenues on gross basis or net basis is depended on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has general inventory risk; (iii) changes the product or performs part of the services; (iv) has latitude in establishing the selling price; and (v) has involvement in the determination of product and service specifications.

Under the arrangements with Platforms or third party payment vendors, the Group takes primary responsibilities of game operation, including determining distribution and payment channels, providing customer services, hosting and maintaining game servers, controlling game and services specifications and pricing. After considering these factors, the Group concluded itself as a principal to deliver in-game experience to Paying Players in these arrangements and accordingly, the Group records revenue on a gross basis, and commission charges by Platforms or third party payment vendors are recorded as cost of revenue.

No revenue is derived from any individual game player which amounted for over 10% of the Group's total revenue (2018: nil).

The Group's non-current assets other than deferred tax assets, investments at fair value through profit or loss and equity investments at fair value through other comprehensive income were located as follows:

|                 | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----------------|-----------------|-----------------|
| Mainland China  | 86,002          | 64,987          |
| Other locations | 17,082          | 16,238          |
|                 | <b>103,084</b>  | 81,225          |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 8. OTHER (LOSSES)/GAINS, NET

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Dividends from equity investments at fair value through other comprehensive income | –               | 134             |
| Dividends from investments at fair value through profit or loss                    | 2,281           | 12,313          |
| (Loss)/gain on disposals of property, plant and equipment                          | (858)           | 139             |
| Government subsidies and tax rebates (Note)  | 8,825           | 10,723          |
| Net foreign exchange losses  | (4,148)         | (535)           |
| Fair value changes on investments at fair value through profit or loss             | (60,356)        | 23,750          |
| Others   | 607             | (2,693)         |
|  | <b>(53,649)</b> | 43,831          |

Note:

Government subsidies represented various industry-specific subsidies granted by the government authorities to subsidise the research and development costs incurred by the Group during the course of its business.

## 9. FINANCE INCOME

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Interest revenue                                   | 23,278          | 18,489          |
| Interest revenue on non-current loans to employees | 380             | 2,097           |
|  | <b>23,658</b>   | 20,586          |

## 10. FINANCE COSTS

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Discounting effects of non-current loans to employees | 1,215           | 2,000           |
| Lease interests                                       | 659             | –               |
|   | <b>1,874</b>    | 2,000           |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 11. INCOME TAX EXPENSE

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Current tax – PRC Enterprise Income Tax (“EIT”) |                 |                 |
| – Provision for the year                        | 6,651           | 9,743           |
| – Under/(over)-provision in prior years         | 858             | (18,619)        |
|   | <b>7,509</b>    | (8,876)         |
| Current tax – Hong Kong Profits Tax             |                 |                 |
| – Provision for the year                        | 14,500          | 13,116          |
| Current tax – Other jurisdictions               |                 |                 |
| – Provision for the year                        | –               | 75              |
|   | <b>22,009</b>   | 4,315           |
| Deferred tax (Note 30)                          | <b>(8,924)</b>  | 1,370           |
|   | <b>13,085</b>   | 5,685           |

### (a) EIT

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the years ended 31 December 2019 and 2018, based on the existing legislation, interpretations and practices in respect thereof.

Shenzhen Dong Fang Bo Ya Technology Co., Limited has successfully renewed its “High and New Technology Enterprise” (“HNTTE”) qualification under PRC Enterprise Income Tax Law (“EIT Law”) during the year ended 31 December 2018 and as a result, Shenzhen Dong Fang Bo Ya Technology Co., Limited enjoy a preferential tax rate of 15% from 1 January 2018 to 31 December 2020. Therefore, the applicable tax rate for Shenzhen Dong Fang Bo Ya Technology Co., Limited was 15% (2018: 15%) for the year ended 31 December 2019.

Boyaa On-line Game Development (Shenzhen) Co., Limited has successfully renewed its HNTTE qualification under EIT Law during the year ended 31 December 2019 and as a result, Boyaa On-line Game Development (Shenzhen) Co., Limited enjoy a preferential tax rate of 15% from 1 January 2019 to 31 December 2021. Therefore, the applicable tax rate for Boyaa On-line Game Development (Shenzhen) Co., Limited was 15% (2018: 15%) for the year ended 31 December 2019.

According to policies promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim 175% (2018: 175%) of the research and development expenses so incurred in a year as tax deductible expenses in determining its tax assessable profits for that year (“Super Deduction”). Shenzhen Dong Fang Bo Ya Technology Co., Limited and Boyaa On-line Game Development (Shenzhen) Co., Limited had claimed such Super Deduction in ascertaining its tax assessable profits for the years ended 31 December 2019 and 2018.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 11. INCOME TAX EXPENSE (Continued)

### (b) PRC withholding tax ("WHT")

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

As at 31 December 2019, the retained earnings of the Group's PRC subsidiaries not yet remitted to holding companies incorporated outside of the PRC, for which no deferred income tax liability had been provided, were RMB1,118,398,000 (2018: RMB1,189,895,000). Such earnings are expected to be retained by the PRC subsidiaries for reinvestment purposes and would not be remitted to their foreign investor in the foreseeable future based on the management's estimation of overseas funding requirements.

### (c) Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 8.25% on assessable profits up to HK\$2,000,000 and 16.5% on any part of assessable profits over HK\$2,000,000 for the years ended 31 December 2019 and 2018.

The reconciliation between the income tax expense and the product of profit before income tax multiplied by the PRC EIT rate of the consolidated companies is as follows:

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Profit before income tax                       | 46,845          | 207,217         |
| Less: share of losses/(profits) of associates  | 3,990           | (2,006)         |
|  | 50,835          | 205,211         |
| Tax at EIT rate of 25% (2018: 25%)             | 12,709          | 51,302          |
| Tax effect of incomes that are not taxable     | (8,769)         | (1,133)         |
| Tax effect of expenses that are not deductible | 4,441           | 3,319           |
| Under/(over)-provision in prior years          | 858             | (18,619)        |
| Tax losses not recognised                      | 8,634           | 10              |
| Super Deduction                                | (10,737)        | (7,611)         |
| Effect of different tax rates of subsidiaries  | (256)           | (20,441)        |
| Others   | 6,205           | (1,142)         |
| Income tax expense                             | 13,085          | 5,685           |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Amortisation of intangible assets                 |                 |                 |
| – included in cost of revenue                     | 1,119           | 1,332           |
| – included in selling and marketing expenses      | –               | 14              |
| – included in administrative expenses             | 52              | 58              |
|   | <b>1,171</b>    | 1,404           |
| Depreciation                                      | <b>13,065</b>   | 8,245           |
| Directors' emoluments (Note 13)                   |                 |                 |
| – Fee   | 620             | 635             |
| – Salaries, allowances and bonuses                | 443             | 1,450           |
| – Retirement benefit scheme contributions         | 13              | 18              |
| – Share-based payments                            | 14              | 18              |
|   | <b>1,090</b>    | 2,121           |
| Operating lease charges                           | –               | 21,370          |
| Research and development expenditure              |                 |                 |
| – included in staff costs                         | 53,370          | 61,623          |
| – included in depreciation                        | 520             | 549             |
| – included in operating lease charges             | –               | 2,876           |
| – included in other administrative expenses       | 4,738           | 5,482           |
|   | <b>58,628</b>   | 70,530          |
| Auditor's remuneration                            |                 |                 |
| – Audit services                                  | 2,680           | 2,200           |
| – Non-audit services                              | 900             | –               |
|   | <b>3,580</b>    | 2,200           |
| Loss allowance provision for trade receivables    | 1,065           | 6,314           |
| Loss allowance provision for loan to an associate | –               | 2,000           |
| Loss allowance provision for loans to employees   | 128             | 1,308           |
| Staff costs including directors' emoluments       |                 |                 |
| – Wages, salaries and bonuses                     | 70,371          | 88,757          |
| – Retirement benefit scheme contributions         | 8,260           | 14,470          |
| – Share-based payments                            | 472             | 3,221           |
|   | <b>79,103</b>   | 106,448         |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 13. DIRECTORS', SENIOR MANAGEMENT'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

#### (a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules, is as follows:

| Name of directors                           | 2019            |   |                                     |   |                                    |                  |
|---|-----------------|---|-------------------------------------|---|------------------------------------|------------------|
|   | Fees<br>RMB'000 | Salaries,<br>allowances<br>and<br>benefits<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Retirement<br>benefit<br>scheme<br>contributions<br>RMB'000 | Share-based<br>payments<br>RMB'000 | Total<br>RMB'000 |
| <i>Executive directors:</i>                 |                 |   |                                     |   |                                    |                  |
| Mr. Dai Zhikang                             | -               | -   | -                                   | -   | -                                  | -                |
| Ms. Tao Ying (Note (ii))                    | -               | 383   | 60                                  | 13  | 14                                 | 470              |
| <i>Independent non-executive directors:</i> |                 |   |                                     |   |                                    |                  |
| Mr. Cheung Ngai Lam                         | 264             | -   | -                                   | -   | -                                  | 264              |
| Mr. Choi Hon Keung Simon                    | 220             | -   | -                                   | -   | -                                  | 220              |
| Mr. You Caizhen (Note (iii))                | 95              | -   | -                                   | -   | -                                  | 95               |
| Mr. Sun Zihua (Note (iv))                   | 41              | -   | -                                   | -   | -                                  | 41               |
|   | 620             | 383   | 60                                  | 13  | 14                                 | 1,090            |
| Name of directors                           | 2018            |   |                                     |   |                                    |                  |
|   | Fees<br>RMB'000 | Salaries,<br>allowances<br>and<br>benefits<br>RMB'000 | Discretionary<br>bonuses<br>RMB'000 | Retirement<br>benefit<br>scheme<br>contributions<br>RMB'000 | Share-based<br>payments<br>RMB'000 | Total<br>RMB'000 |
| <i>Executive directors:</i>                 |                 |   |                                     |   |                                    |                  |
| Mr. Zhang Wei (Note (i))                    | -               | 1,023   | 350                                 | 14  | -                                  | 1,387            |
| Mr. Dai Zhikang                             | -               | -   | -                                   | -   | -                                  | -                |
| Ms. Tao Ying (Note (ii))                    | -               | 77  | -                                   | 4   | 18                                 | 99               |
| <i>Independent non-executive directors:</i> |                 |   |                                     |   |                                    |                  |
| Mr. Cheung Ngai Lam                         | 254             | -   | -                                   | -   | -                                  | 254              |
| Mr. Choi Hon Keung Simon                    | 212             | -   | -                                   | -   | -                                  | 212              |
| Mr. You Caizhen (Note (iii))                | 169             | -   | -                                   | -   | -                                  | 169              |
|   | 635             | 1,100   | 350                                 | 18  | 18                                 | 2,121            |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 13. DIRECTORS', SENIOR MANAGEMENT'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

### (a) Directors' and chief executive's emoluments (Continued)

Notes:

- (i) Mr. Zhang Wei resigned as the chief executive officer and executive director of the Group on 21 September 2018.
- (ii) Ms. Tao Ying was appointed as an executive director and the acting chief executive officer of the Group on 21 September 2018.
- (iii) Mr. You Caizhen was retired on 14 July 2019.
- (iv) Mr. Sun Zihua was appointed as an independent non-executive director on 14 July 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

### (b) Senior management's emoluments

Senior management includes directors, chief executive officer and other senior executives. The aggregate compensation paid/payable to senior management for employee services excluding the directors and the chief executive officer whose details have been reflected in note 13(a) to the consolidated financial statements is as follows:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries, allowances and bonuses        | 1,426           | 1,109           |
| Retirement benefit scheme contributions | 47              | 42              |
| Share-based payments                    | –               | 94              |
|   | <b>1,473</b>    | <b>1,245</b>    |

The number of senior management for employee services excluding the directors and the chief executive officer whose remuneration falls within the following band:

|                             | Number of individuals |      |
|-----------------------------|-----------------------|------|
|                             | 2019                  | 2018 |
| Nil to HK\$1,000,000 (Note) | 2                     | 3    |

Note:

In 2019, 1 (2018: 1) senior executive resigned from the Group.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 13. DIRECTORS', SENIOR MANAGEMENT'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

#### (c) Five highest paid employees

The five highest paid employees of the Group during the year included 0 (2018: 1) director whose remuneration are set out in note 13(a) above. Details of the remuneration for the year of the remaining 5 (2018: 4) highest paid employees who are neither a director nor chief executive of the Company are as follows:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries, allowances and bonuses        | 3,589           | 2,373           |
| Retirement benefit scheme contributions | 85              | 67              |
| Share-based payments                    | –               | 296             |
|   | <b>3,674</b>    | <b>2,736</b>    |

The number of the highest paid employees who are not the Directors and whose remuneration falls within the following bands:

|                                | Number of individuals |          |
|--------------------------------|-----------------------|----------|
|                                | 2019                  | 2018     |
| Nil to HK\$1,000,000           | 4                     | 4        |
| HK\$1,000,001 to HK\$1,500,000 | 1                     | –        |
|                                | <b>5</b>              | <b>4</b> |

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 14. DIVIDEND

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Special dividend of HK\$0.276 (equivalent to RMB0.24)<br>(2018: nil) per ordinary share | 162,545         | –               |

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| <b>Earnings</b>   |                 |                 |
| Earnings for the purpose of basic and diluted earnings per share                            | 33,760          | 201,532         |
|   |                 |                 |
|   | 2019<br>'000    | 2018<br>'000    |
| <b>Number of shares</b>   |                 |                 |
| Weighted average number of ordinary shares for the purpose of<br>basic earnings per share   | 667,955         | 681,727         |
| Effect of dilutive potential ordinary shares arising from RSUs                              | 77              | 1,911           |
| Effect of dilutive potential ordinary shares arising from share options                     | 17              | 72              |
| Weighted average number of ordinary shares for the purpose of<br>diluted earnings per share | 668,049         | 683,710         |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 16. PROPERTY, PLANT AND EQUIPMENT

|   | Buildings<br>RMB'000 | Furniture and<br>equipment<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Leasehold<br>improvements<br>RMB'000 | Total<br>RMB'000 |
|---|----------------------|---------------------------------------|------------------------------|--------------------------------------|------------------|
| <b>Cost</b>                                   |                      |                                       |                              |                                      |                  |
| At 1 January 2018                             | 26,711               | 26,456                                | 6,499                        | 16,583                               | 76,249           |
| Additions                                     | –                    | 513                                   | 353                          | 5,314                                | 6,180            |
| Disposals                                     | –                    | (263)                                 | (1,143)                      | (1,128)                              | (2,534)          |
| Currency translation differences              | 742                  | 302                                   | 65                           | –                                    | 1,109            |
| <b>At 31 December 2018 and 1 January 2019</b> | <b>27,453</b>        | <b>27,008</b>                         | <b>5,774</b>                 | <b>20,769</b>                        | <b>81,004</b>    |
| <b>Additions</b>                              | <b>–</b>             | <b>2,444</b>                          | <b>1,165</b>                 | <b>10,320</b>                        | <b>13,929</b>    |
| <b>Disposals</b>                              | <b>–</b>             | <b>(3,432)</b>                        | <b>(690)</b>                 | <b>(454)</b>                         | <b>(4,576)</b>   |
| <b>Currency translation differences</b>       | <b>361</b>           | <b>160</b>                            | <b>40</b>                    | <b>–</b>                             | <b>561</b>       |
| <b>At 31 December 2019</b>                    | <b>27,814</b>        | <b>26,180</b>                         | <b>6,289</b>                 | <b>30,635</b>                        | <b>90,918</b>    |
| <b>Accumulated depreciation</b>               |                      |                                       |                              |                                      |                  |
| At 1 January 2018                             | 2,611                | 17,873                                | 3,315                        | 12,436                               | 36,235           |
| Charge for the year                           | 1,278                | 3,028                                 | 939                          | 3,000                                | 8,245            |
| Disposals                                     | –                    | (238)                                 | (1,029)                      | –                                    | (1,267)          |
| Currency translation differences              | 94                   | 218                                   | 37                           | –                                    | 349              |
| <b>At 31 December 2018 and 1 January 2019</b> | <b>3,983</b>         | <b>20,881</b>                         | <b>3,262</b>                 | <b>15,436</b>                        | <b>43,562</b>    |
| <b>Charge for the year</b>                    | <b>1,307</b>         | <b>2,632</b>                          | <b>843</b>                   | <b>3,952</b>                         | <b>8,734</b>     |
| <b>Disposals</b>                              | <b>–</b>             | <b>(3,048)</b>                        | <b>(207)</b>                 | <b>(126)</b>                         | <b>(3,381)</b>   |
| <b>Currency translation differences</b>       | <b>64</b>            | <b>128</b>                            | <b>19</b>                    | <b>–</b>                             | <b>211</b>       |
| <b>At 31 December 2019</b>                    | <b>5,354</b>         | <b>20,593</b>                         | <b>3,917</b>                 | <b>19,262</b>                        | <b>49,126</b>    |
| <b>Carrying amount</b>                        |                      |                                       |                              |                                      |                  |
| <b>At 31 December 2019</b>                    | <b>22,460</b>        | <b>5,587</b>                          | <b>2,372</b>                 | <b>11,373</b>                        | <b>41,792</b>    |
| At 31 December 2018                           | 23,470               | 6,127                                 | 2,512                        | 5,333                                | 37,442           |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 17. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

| <b>At 31 December</b>   | <b>2019<br/>RMB'000</b> |
|---|-------------------------|
| Right-of-use assets   |                         |
| – Buildings   | 7,576                   |
| – Equipments  | 2,850                   |
|   | <b>10,426</b>           |
| Lease commitments of short-term leases  | <b>1,638</b>            |
| The maturity analysis, based on undiscounted cash flows,<br>of the Group's lease liabilities is as follows: |                         |
| – Less than 1 year  | 5,393                   |
| – Between 1 and 2 years   | 4,356                   |
| – Between 2 and 5 years   | 995                     |
|   | <b>10,744</b>           |
| <b>Year ended 31 December</b>   | <b>2019<br/>RMB'000</b> |
| Depreciation charge of right-of-use assets  |                         |
| – Buildings   | 3,367                   |
| – Equipments  | 964                     |
|   | <b>4,331</b>            |
| Lease interests   | <b>659</b>              |
| Expenses related to short-term leases   | <b>9,779</b>            |
| Total cash outflow for leases   | <b>15,099</b>           |
| Additions to right-of-use assets  | <b>1,800</b>            |

The Group leases various buildings and servers. Lease agreements are typically made for fixed periods of 3 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 18. INTANGIBLE ASSETS

|   | Computer<br>software<br>RMB'000 | Contractual<br>customer<br>relationship<br>RMB'000 | Total<br>RMB'000 |
|---|---------------------------------|--|------------------|
| <b>Cost</b>   |                                 |  |                  |
| At 1 January 2018, 31 December 2018,<br>1 January 2019 and 31 December 2019 | 3,461                           | 4,823  | 8,284            |
| <b>Accumulated amortisation</b>   |                                 |  |                  |
| At 1 January 2018   | 2,682                           | 2,814  | 5,496            |
| Amortisation for the year   | 440                             | 964  | 1,404            |
| At 31 December 2018 and 1 January 2019                                      | 3,122                           | 3,778  | 6,900            |
| Amortisation for the year   | 207                             | 964  | 1,171            |
| At 31 December 2019   | 3,329                           | 4,742  | 8,071            |
| <b>Carrying amount</b>  |                                 |  |                  |
| At 31 December 2019   | 132                             | 81   | 213              |
| At 31 December 2018   | 339                             | 1,045  | 1,384            |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 19. SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2019 are as follows:

| Name   | Place of incorporation/<br>registration<br>and operation | Issued and<br>paid up<br>capital                                      | Percentage of ownership interest/<br>voting power/profit sharing |                 | Principal<br>activities   |
|--|--|---|--|-----------------|---|
|  |  |   | 2019 and 2018<br>Direct  | Indirect        |   |
| Boyaa Holdings Limited   | British Virgin Islands                                   | USD1  | 100%   | –               | Investment holding  |
| Boyaa Interactive (Hong Kong) Limited  | Hong Kong  | HK\$10,000  | –  | 100%            | Operation of online games   |
| Boyaa On-line Game Development (Shenzhen) Co., Limited (博雅網絡遊戲開發(深圳)有限公司) (Note (iii)) | PRC  | USD10,000,000   | –  | 100%            | Provision of advisory services                                      |
| Shenzhen Dong Fang Bo Ya Technology Co., Limited (深圳市東方博雅科技有限公司)                       | PRC  | RMB10,000,000   | –  | 100% (Note (i)) | Development and operation of online games                           |
| Boyaa Interactive (Thailand) Limited   | Thailand   | Thailand Baht<br>8,000,000  | –  | 99% (Note (ii)) | Provision of advisory services relating to online game applications |
| Shanghai Chunlei Interactive Network Technology Co., Limited (上海春雷互動網絡科技有限公司)          | PRC  | RMB30,000,000   | –  | 100%            | Provision of advisory services                                      |
| Hainan Chunlei Interactive Technology Co., Limited (海南春雷互動科技有限公司) (Note (iii))         | PRC  | RMB10,000,000   | –  | 100% (Note (i)) | Provision of advisory services                                      |
| Shenzhen Fengxunsheng Technology Co., Limited (深圳市豐訊盛科技有限公司)                           | PRC  | RMB6,248,000  | –  | 100% (Note (i)) | Operation of online games   |
| Shenzhen Coalaa Network Technology Co., Limited (深圳市卡拉網絡科技有限公司)                        | PRC  | RMB8,100,000  | –  | 100% (Note (i)) | Provision of advisory services                                      |
| PT Boyaa Interactive Indonesia   | Indonesia  | Indonesian Rupiah<br>("IDR")<br>3,000,000,000 and<br>IDR1,301,310,097 | –  | 100%            | Operation of online games   |
| Boyaa Interactive (Viet Nam) Company Limited   | Vietnam  | Vietnam Dong<br>("VND")<br>5,000,000,000 and<br>VND587,629,310        | –  | 100%            | Provision of advisory services                                      |
| Shenzhen Erlulu Technology Company Limited (深圳市貳陸陸科技有限公司)                              | PRC  | RMB10,000,000   | –  | 100%            | Provision of advisory services                                      |
| Erlulu (Shenzhen) Game Development Company Limited (貳陸陸(深圳)遊戲開發有限公司) (Note (iii))      | PRC  | RMB10,000,000   | –  | 100%            | Provision of advisory services                                      |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 19. SUBSIDIARIES (Continued)

Notes:

- (i) As described in note 4 to the consolidated financial statements, the Company does not have legal ownership in equity of Shenzhen Dong Fang Bo Ya Technology Co., Limited and its subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of Shenzhen Dong Fang Bo Ya Technology Co., Limited, Boyaa On-line Game Development (Shenzhen) Co., Limited controls these companies by way of controlling the voting rights, governing their financial and operating policies, and casting full votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to Boyaa On-line Game Development (Shenzhen) Co., Limited. As a result, these entities are consolidated as wholly owned subsidiaries of the Group.
- (ii) The directors of the Company consider that the non-controlling interests of this subsidiary was insignificant to the Group and thus the summarised financial information of this subsidiary is not disclosed.
- (iii) Boyaa On-line Game Development (Shenzhen) Co., Limited, Shanghai Chunlei Interactive Network Technology Co., Limited and Erlulu (Shenzhen) Game Development Company Limited are a wholly-owned foreign enterprises established in the PRC.

The English names of certain subsidiaries referred herein represent the management's best efforts in translating the Chinese name of these companies as no English names have been registered.

The sum of revenue, expenses, total assets and total liabilities of Shenzhen Dong Fang Bo Ya Technology Co., Limited and its subsidiaries amounting to approximately RMB58.3 million and RMB83.3 million (2018: RMB160.7 million and RMB160.4 million) for the year ended 31 December 2019 and approximately RMB1,053.0 million and RMB462.3 million (2018: RMB1,421.0 million and RMB747.5 million) as at 31 December 2019, respectively.

## 20. INVESTMENTS IN ASSOCIATES

|                              | 2019<br>RMB'000 | 2018<br>RMB'000 |
|------------------------------|-----------------|-----------------|
| Unlisted investments in PRC: |                 |                 |
| Share of net assets          | 12,793          | 16,964          |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 20. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the associates of the Group are as follows:

| Name  | Place of incorporation/<br>registration and<br>operation | Percentage of ownership<br>interest/voting power/<br>profit sharing |        | Principal activities  |
|---|--|---|--------|---|
|   |  | 2019  | 2018   |   |
| Shenzhen Fanhou Technology Co., Limited (深圳市飯後科技有限公司)                 | PRC  | 24.00%  | 24.00% | Game development  |
| Shenzhen HuifuWorld Network Technology Co., Limited (深圳市匯富天下網絡科技有限公司) | PRC  | 14.70%  | 14.70% | Development and operation of Internet Protocol television ("IPTV") and Android Set-Top-Box related channels and platforms and lottery |
| Shenzhen Easething Technology Co., Limited (深圳市易新科技有限公司)              | PRC  | 10.00%  | 10.00% | Development and operation of intelligent hardware and artificial intelligence system  |
| Shenzhen Jisiwei Intelligent Technology Co., Limited (深圳市極思維智能科技有限公司) | PRC  | 12.00%  | 12.00% | Development and sales of electronic products and development of intelligence applications   |
| Shanghai Allin Network Technology Co., Limited (上海傲英網絡科技有限公司)         | PRC  | 15.75%  | 15.75% | Development and operation of IPTV platform and poker game   |
| Chengdu Boyu Interactive Technology Co., Limited (成都博娛互動科技有限公司)       | PRC  | –   | 15.00% | Operation and promotion of chess and card games   |

Although the Group holds less than 20% of the voting power of Shenzhen HuifuWorld Network Technology Co., Limited, Shenzhen Easething Technology Co., Limited, Shenzhen Jisiwei Intelligent Technology Co., Limited and Shanghai Allin Network Technology Co., Limited, the Group exercises significant influence over these companies because the Group is guaranteed a seat on the boards of directors of these companies through investment agreements and hence has the power to participate in the making of significant financial and operating decisions in relation to of these companies.

The directors of the Company considered that all associates as at 31 December 2019 and 2018 were insignificant to the Group and thus the individual summarised financial information of these associates is not disclosed.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 20. INVESTMENTS IN ASSOCIATES (Continued)

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

|                                      | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--------------------------------------|-----------------|-----------------|
| At 31 December:                      |                 |                 |
| Carrying amounts of interests        | 12,793          | 16,964          |
| Year ended 31 December:              |                 |                 |
| (Loss)/profit                        | (3,990)         | 2,006           |
| Total comprehensive (expense)/income | (3,990)         | 2,006           |

As at 31 December 2019, the bank and cash balances of the Group's associates in the PRC denominated in RMB amounted to RMB2,347,000 (2018: RMB3,370,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

### 21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Equity securities, at fair value  |                 |                 |
| – Listed in PRC – Dalian Zeus Entertainment Co., Limited  | 19,100          | 34,994          |
| – Listed in Hong Kong – Xiaomi Corporation  | 16,416          | 19,245          |
| – Listed in USA – Qudian Inc.   | 7,232           | 6,480           |
|   | 42,748          | 60,719          |
| – Unlisted equity securities in PRC   | 1,518           | 3,035           |
| – Unlisted preference shares of private companies   | 899             | 771             |
| Total equity investments at fair value through other comprehensive income, analysed as non-current assets | 45,165          | 64,525          |

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 22. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <u>Included in non-current assets</u>                  |                 |                 |
| Non-quoted investments in:                             |                 |                 |
| – asset management plans (Notes (i) and (iv))          | 95,200          | 104,033         |
| – equity investment partnerships (Notes (ii) and (iv)) | 399,812         | 485,298         |
|  | <b>495,012</b>  | 589,331         |
| <u>Included in current assets</u>                      |                 |                 |
| Non-quoted investments in:                             |                 |                 |
| – asset management plan (Note (i))                     | 6,800           | 6,875           |
| – wealth management products (Note (iii))              | 495,547         | 812,839         |
|  | <b>502,347</b>  | 819,714         |
|  | <b>997,359</b>  | 1,409,045       |

Notes:

- (i) They represented the entrusted investments with the principal amount of RMB80 million each to 2 independent asset management companies incorporated in the PRC. The estimated minimum return of such asset management plans is 5.05% per annum. If the estimated annual return cannot be achieved, the Group or asset management companies have an option to early terminate the asset management plans. The Group will obtain the accumulated return and the entrusted principal in 2022 or upon early termination.

The Group and one of the asset management company entered into several supplemental agreements. During the year ended 31 December 2018, according to supplemental agreement I, the principal investment amount was revised to RMB40 million in 2018 and RMB33 million in 2019. During the year ended 31 December 2019, according to supplemental agreement II, the principal of RMB7 million will be returned to the Group in 2020 and the remaining principal of RMB26 million and its accumulated return will be returned to the Group in 2021.

- (ii) They represented investments in equity investment partnership as a limited partner, which are mainly engaged in investments in early-stage and high-growth companies in the technology, media and telecommunications industry in China. They have initial terms ranging from 7 to 10 years.

On 28 December 2016, the Group, through Shenzhen Dong Fang Bo Ya Technology Co., Limited, established a limited partnership, Jiaying Boyaa with Shanghai Tailai Tianji Asset Management Co., Limited. During the year ended 31 December 2019, the Group's accumulated contribution of RMB300.0 million represented 99.0% of the total capital contribution of Jiaying Boyaa. The fair value of the investment in Jiaying Boyaa as at 31 December 2019 was approximately RMB268.2 million. Jiaying Boyaa is established for carrying out equity investments, venture capital investments and investments in securities, subject to certain investment restrictions. We will continue to closely monitor the performance of Jiaying Boyaa on an on-going basis.

For the year ended 31 December 2019, the fair value loss of the investment in Jiaying Boyaa was approximately RMB44.6 million (for the year ended 31 December 2018: fair value gain was approximately RMB14.6 million).

- (iii) Investments in wealth management products are investments in wealth management plans provided by financial institutions in the PRC. They have initial terms ranging from 30 days to 364 days. At 31 December 2019, an amount of RMB362,930,000 were frozen (Note 38).

- (iv) The management of the Group is of the view that the investments are not held for trading and does not expect that the Group will realise the investments at fair value through profit or loss within 12 months after the date of the consolidated statement of financial position.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 23. TRADE RECEIVABLES

Trade receivables were arising from the operation of online game business. Platforms and third party payment vendors collect the payment from the Paying Players and remit the cash net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and Platforms or third party payment vendors. The credit terms of trade receivables granted to the Platforms and third party payment vendors are usually 30 to 120 days.

|                              | 2019<br>RMB'000 | 2018<br>RMB'000 |
|------------------------------|-----------------|-----------------|
| Trade receivables            | 23,742          | 22,955          |
| Provision for loss allowance | (5,741)         | (4,590)         |
| Carrying amount              | 18,001          | 18,365          |

The aging analysis of trade receivables, based on recognition date of the trade receivables, net of allowance, is as follows:

|                 | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----------------|-----------------|-----------------|
| 0 to 30 days    | 16,949          | 16,652          |
| 31 to 60 days   | 240             | 316             |
| 61 to 90 days   | 157             | 117             |
| 91 to 180 days  | 173             | 410             |
| 181 to 360 days | 264             | 783             |
| Over 360 days   | 218             | 87              |
|                 | 18,001          | 18,365          |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 23. TRADE RECEIVABLES (Continued)

Reconciliation of loss allowance for trade receivables:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| At 1 January                            | 4,590           | –               |
| Increase in loss allowance for the year | 1,065           | 6,314           |
| Amounts written off                     | –               | (1,877)         |
| Currency translation differences        | 86              | 153             |
| At 31 December                          | 5,741           | 4,590           |

The Group applies the simplified approach under IFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

|                                     | Current | Within<br>30 days<br>past due | 31 –<br>60 days<br>past due | 61 –<br>120 days<br>past due | Over<br>120 days<br>past due | Total  |
|-------------------------------------|---------|-------------------------------|-----------------------------|------------------------------|------------------------------|--------|
| <b>At 31 December 2019</b>          |         |                               |                             |                              |                              |        |
| Weighted average expected loss rate | 1%      | 1%                            | 1%                          | 4%                           | 91%                          |        |
| Receivable amount (RMB'000)         | 14,609  | 2,439                         | 241                         | 242                          | 6,211                        | 23,742 |
| Loss allowance (RMB'000)            | 73      | 26                            | 1                           | 10                           | 5,631                        | 5,741  |
| <b>At 31 December 2018</b>          |         |                               |                             |                              |                              |        |
| Weighted average expected loss rate | 1%      | 13%                           | 64%                         | 79%                          | 69%                          |        |
| Receivable amount (RMB'000)         | 14,010  | 3,103                         | 867                         | 1,256                        | 3,719                        | 22,955 |
| Loss allowance (RMB'000)            | 70      | 391                           | 551                         | 997                          | 2,581                        | 4,590  |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| <b>Included in non-current assets</b>                     |                 |                 |
| Prepayments for purchase of property, plant and equipment | 18,245          | 9,171           |
| Loans to employees (Note)                                 | 17,753          | 12,764          |
| Advances to employees                                     | 1,862           | 3,500           |
|   | <b>37,860</b>   | 25,435          |
| <b>Included in current assets</b>                         |                 |                 |
| Loans to employees (Note)                                 | 1,434           | 2,624           |
| Advances to employees                                     | 2,351           | 4,442           |
| Deposits  | 1,352           | 1,186           |
| Prepayments for advertising costs                         | 1,286           | 2,555           |
| Prepaid commission charges                                | 2,293           | 1,546           |
| Prepayments for rental of servers                         | 3,374           | 1,222           |
| Interest receivables                                      | 2,372           | 5,158           |
| Undeducted input value-added tax                          | 388             | 405             |
| Prepayments to securities broker                          | 2,983           | 3,675           |
| Prepayments for legal expenses                            | 4,397           | –               |
| Receivables from special dividend distribution            | 12,975          | –               |
| Others  | 6,717           | 5,449           |
|   | <b>41,922</b>   | 28,262          |

Note:

Loans to employees represented housing or auto loans to certain employees. These loans are unsecured, interest-free and have initial repayment terms ranging from 1 to 10 years. The initial fair values of the non-current loans to employees were based on cash flows discounted using interest rates based on the prevailing borrowing rates ranging from 4.75% to 6.15% (2018: 4.75% to 6.15%) p.a. promulgated by the People's Bank of China. The differences of RMB1,215,000 (2018: RMB2,000,000) between the initial fair values and the principals of these loans were recorded in "finance costs" (Note 10).

## 25. RESTRICTED BANK DEPOSITS

The Group's restricted bank deposits represented deposits that were frozen (Note 38).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 26. TERM DEPOSITS AND BANK AND CASH BALANCES

The Group's term deposits represented deposits to banks. The deposits are in USD, HK\$ and RMB and at average fixed interest rates of 2.47% (2018: 3.08%) p.a. and therefore are subject to foreign currency risk and fair value interest rate risk.

As at 31 December 2019, the term deposits and bank and cash balances of the Group denominated in RMB amounted to RMB505,806,000 (2018: RMB258,939,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

## 27. TRADE AND OTHER PAYABLES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Trade payables                           | 879             | 378             |
| Other tax payables                       | 43,215          | 43,253          |
| Accrued expenses                         | 5,906           | 3,125           |
| Accrued commissions charges by Platforms | 13,854          | 15,138          |
| Accrued advertising expenses             | 1,908           | 1,718           |
| Salary and staff welfare payables        | 5,087           | 5,250           |
| Others                                   | 1,208           | 501             |
|  | <b>72,057</b>   | 69,363          |

The aging analysis of trade payables, based on recognition date of trade payables, is as follows:

|                 | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-----------------|-----------------|-----------------|
| 0 to 30 days    | 219             | 76              |
| 31 to 90 days   | 262             | -               |
| 91 to 180 days  | 92              | -               |
| 181 to 365 days | -               | -               |
| Over 365 days   | 306             | 302             |
|                 | <b>879</b>      | 378             |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 28. CONTRACT LIABILITIES

Disclosures of revenue-related items:

| As at   | <b>31 December<br/>2019<br/>RMB'000</b> | 31 December<br>2018<br>RMB'000 | 1 January<br>2018<br>RMB'000 |
|---|---|--------------------------------|------------------------------|
| Contract liabilities  | <b>18,100</b>                           | 18,005                         | 22,273                       |
| Contract receivables (included in trade receivables)  | <b>18,001</b>                           | 18,365                         | 36,203                       |
|   |   | <b>2019<br/>RMB'000</b>        | 2018<br>RMB'000              |
| Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in: |   |                                |                              |
| – 2019  |   | <b>N/A</b>                     | 18,005                       |
| – 2020  |   | <b>18,100</b>                  | –                            |
|   |   | <b>18,100</b>                  | 18,005                       |
| Year ended 31 December  |   | <b>2019<br/>RMB'000</b>        | 2018<br>RMB'000              |
| Revenue recognised in the year that was included in contract liabilities at beginning of year                                   |   | <b>18,005</b>                  | 22,273                       |
| Significant changes in contract liabilities during the year:  |   | <b>2019<br/>RMB'000</b>        | 2018<br>RMB'000              |
| Increase due to operations in the year  |   | <b>322,212</b>                 | 448,517                      |
| Transfer of contract liabilities to revenue   |   | <b>(323,816)</b>               | (453,234)                    |
| Currency translation differences  |   | <b>1,600</b>                   | 449                          |

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 29. LEASE LIABILITIES

|   | Lease<br>payments<br>2019<br>RMB'000 | Present value<br>of lease<br>payments<br>2019<br>RMB'000 |
|---|--------------------------------------|--|
| Within one year   | 5,393                                | 4,896  |
| Over one year but within five years   | 5,351                                | 5,127  |
|   | <b>10,744</b>                        | <b>10,023</b>  |
| Less: Future finance charge   | (721)                                |  |
| Present value of lease liabilities  | <b>10,023</b>                        |  |
| Less: Amount due for settlement within 12 months<br>(shown under current liabilities) |                                      | <b>(4,896)</b>   |
|   |                                      | <b>5,127</b>   |

At 31 December 2019, the average effective borrowing rate was 6.8% p.a.. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 30. DEFERRED TAX

The following are the deferred tax assets recognised by the Group.

|   | Contract<br>liabilities<br>RMB'000 | Loss<br>allowance<br>RMB'000 | Changes in<br>fair value of<br>investments<br>at fair value<br>through profit<br>or loss and<br>equity<br>investments<br>at fair value<br>through other<br>comprehensive<br>income<br>RMB'000 | Total<br>RMB'000 |
|---|------------------------------------|------------------------------|---|------------------|
| At 1 January 2018                             | 1,055                              | –                            | –   | 1,055            |
| (Charge)/credit to profit or loss             | (416)                              | 1,148                        | 2,303   | 3,035            |
| Credit to other comprehensive income          | –                                  | –                            | 30,379  | 30,379           |
| Currency translation differences              | –                                  | 25                           | –   | 25               |
| <b>At 31 December 2018 and 1 January 2019</b> | <b>639</b>                         | <b>1,173</b>                 | <b>32,682</b>   | <b>34,494</b>    |
| <b>(Charge)/credit to profit or loss</b>      | <b>(153)</b>                       | <b>265</b>                   | <b>(2,303)</b>  | <b>(2,191)</b>   |
| <b>Charge to other comprehensive income</b>   | <b>–</b>                           | <b>–</b>                     | <b>(8,608)</b>  | <b>(8,608)</b>   |
| <b>Currency translation differences</b>       | <b>–</b>                           | <b>18</b>                    | <b>–</b>  | <b>18</b>        |
| <b>At 31 December 2019</b>                    | <b>486</b>                         | <b>1,456</b>                 | <b>21,771</b>   | <b>23,713</b>    |

At the end of the reporting period, the Group has unused tax losses of RMB45,587,000 available for offset against future profits. No deferred tax assets has been recognised due to the unpredictability of future profit streams. These tax losses will expire from year 2020 to 2024.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 30. DEFERRED TAX (Continued)

The following are the deferred tax liabilities recognised by the Group.

|   | Intangible<br>assets acquired<br>in business<br>combination<br>at fair value<br>RMB'000 | Changes in<br>fair value of<br>investments<br>at fair value<br>through profit<br>or loss and<br>equity<br>investments<br>at fair value<br>through other<br>comprehensive<br>income<br>RMB'000 | Dilution gains<br>on investment<br>in an associate<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|------------------|
| At 1 January 2018                             | 114   | 2,194   | 591   | 2,899            |
| (Credit)/charge to profit or loss             | (55)  | 4,460   | –   | 4,405            |
| Charge to other comprehensive income          | –   | 11,507  | –   | 11,507           |
| <b>At 31 December 2018 and 1 January 2019</b> | <b>59</b>   | <b>18,161</b>   | <b>591</b>  | <b>18,811</b>    |
| <b>Credit to profit or loss</b>               | <b>(55)</b>   | <b>(11,060)</b>   | <b>–</b>  | <b>(11,115)</b>  |
| <b>At 31 December 2019</b>                    | <b>4</b>  | <b>7,101</b>  | <b>591</b>  | <b>7,696</b>     |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 31. SHARE CAPITAL

The total authorised share capital of the Company comprises 2,000,000,000 ordinary shares (2018: 2,000,000,000 ordinary shares) with par value of USD0.00005 (2018: USD0.00005) per share.

|   | Notes | Number of<br>ordinary<br>shares | Nominal<br>value of<br>ordinary<br>shares<br>USD'000 | Equivalent<br>nominal<br>value of<br>ordinary<br>shares<br>RMB'000 |
|---|-------|---------------------------------|--|--|
| Issued and fully paid:                        |       |                                 |  |  |
| At 1 January 2018                             |       | 767,821,301                     | 38   | 249  |
| Issue of ordinary shares                      | (i)   | 813,999                         | –  | –  |
| Cancellation of ordinary shares               | (ii)  | (44,051,999)                    | (2)  | (14)   |
| <b>At 31 December 2018 and 1 January 2019</b> |       | <b>724,583,301</b>              | <b>36</b>  | <b>235</b>   |
| <b>Cancellation of ordinary shares</b>        | (ii)  | <b>(2,832,000)</b>              | <b>–</b>   | <b>(1)</b>   |
| <b>At 31 December 2019</b>                    |       | <b>721,751,301</b>              | <b>36</b>  | <b>234</b>   |

Notes:

- (i) Share options exercised during the year ended 31 December 2018 resulted in 813,999 shares being issued, with a total exercise proceeds of RMB1,915,000.
- (ii) The Group repurchased 6,246,000 shares (2018: 34,971,000 shares) of its own shares from the market during the year. The total amount paid to acquire the shares was RMB6,794,000 (2018: RMB87,049,000) and has been deducted from the shareholders' equity. The related weighted average price at the time of buy-back was HK\$1.25 (2018: HK\$3.04) per share. 1,421,000 shares of these repurchased shares were cancelled during the year ended 31 December 2019. Remaining 4,825,000 shares have not been cancelled yet up to the date of this report. For the 2,832,000 cancelled shares during the year ended 31 December 2019, 1,411,000 ordinary shares were repurchased during the year ended 31 December 2018 and 1,421,000 ordinary shares were repurchased during the year ended 31 December 2019.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| <b>ASSETS</b>   |                 |                 |
| <b>Non-current assets</b>   |                 |                 |
| Investments in subsidiaries   | 366,614         | 540,847         |
| Equity investments at fair value through other comprehensive income | 23,648          | 25,725          |
|   | <b>390,262</b>  | 566,572         |
| <b>Current assets</b>   |                 |                 |
| Prepayments and other receivables                                   | 17,145          | 4,718           |
| Term deposits   | –               | 40,181          |
| Bank and cash balances  | 39,606          | 4,251           |
|   | <b>56,751</b>   | 49,150          |
| <b>Total assets</b>   | <b>447,013</b>  | 615,722         |
| <b>EQUITY AND LIABILITIES</b>                                       |                 |                 |
| <b>Equity</b>   |                 |                 |
| Share capital   | 234             | 235             |
| Reserves  | 442,777         | 614,168         |
| <b>Total equity</b>   | <b>443,011</b>  | 614,403         |
| <b>Liabilities</b>  |                 |                 |
| <b>Current liabilities</b>  |                 |                 |
| Other payables  | 4,002           | 1,319           |
| <b>Total liabilities</b>  | <b>4,002</b>    | 1,319           |
| <b>Total equity and liabilities</b>                                 | <b>447,013</b>  | 615,722         |
| <b>Net current assets</b>   | <b>52,749</b>   | 47,831          |
| <b>Total assets less current liabilities</b>                        | <b>443,011</b>  | 614,403         |

## 33. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 33. RESERVES (Continued)

### (b) Company

|   | Share premium | Repurchased shares | Shares held for RSU scheme | Share-based payments reserve | Foreign currency translation reserve | Other reserve | Accumulated losses | Total     |
|---|---------------|--------------------|----------------------------|------------------------------|--------------------------------------|---------------|--------------------|-----------|
|   | RMB'000       | RMB'000            | RMB'000                    | RMB'000                      | RMB'000                              | RMB'000       | RMB'000            | RMB'000   |
| At 1 January 2018   | 642,365       | (27,283)           | (15)                       | 92,511                       | 32,294                               | (18,084)      | (26,660)           | 695,128   |
| Loss for the year   | -             | -                  | -                          | -                            | -                                    | -             | (3,644)            | (3,644)   |
| Change in fair value of equity investments at fair value through other comprehensive income | -             | -                  | -                          | -                            | -                                    | (16,034)      | -                  | (16,034)  |
| Currency translation differences  | -             | -                  | -                          | -                            | 20,617                               | -             | -                  | 20,617    |
| Repurchase of ordinary shares   | -             | (87,049)           | -                          | -                            | -                                    | -             | -                  | (87,049)  |
| Cancellation of ordinary shares   | (112,258)     | 112,272            | -                          | -                            | -                                    | -             | -                  | 14        |
| Share-based payments  |               |                    |                            |                              |                                      |               |                    |           |
| - value of employee services  | -             | -                  | -                          | 3,221                        | -                                    | -             | -                  | 3,221     |
| - proceeds from shares issued   | 1,915         | -                  | -                          | -                            | -                                    | -             | -                  | 1,915     |
| - vesting of shares under RSU scheme  | (1)           | -                  | 1                          | -                            | -                                    | -             | -                  | -         |
| - exercise and lapse of share options and RSUs  | 11,700        | -                  | -                          | (11,700)                     | -                                    | -             | -                  | -         |
| At 31 December 2018   | 543,721       | (2,060)            | (14)                       | 84,032                       | 52,911                               | (34,118)      | (30,304)           | 614,168   |
| At 1 January 2019   | 543,721       | (2,060)            | (14)                       | 84,032                       | 52,911                               | (34,118)      | (30,304)           | 614,168   |
| Loss for the year   | -             | -                  | -                          | -                            | -                                    | -             | (7,248)            | (7,248)   |
| Change in fair value of equity investments at fair value through other comprehensive income | -             | -                  | -                          | -                            | -                                    | (2,570)       | -                  | (2,570)   |
| Currency translation differences  | -             | -                  | -                          | -                            | 7,293                                | -             | -                  | 7,293     |
| Repurchase of ordinary shares   | -             | (6,794)            | -                          | -                            | -                                    | -             | -                  | (6,794)   |
| Cancellation of ordinary shares   | (3,989)       | 3,990              | -                          | -                            | -                                    | -             | -                  | 1         |
| Share-based payments  |               |                    |                            |                              |                                      |               |                    |           |
| - value of employee services  | -             | -                  | -                          | 472                          | -                                    | -             | -                  | 472       |
| - exercise and lapse of share options and RSUs  | 3,783         | -                  | -                          | (3,783)                      | -                                    | -             | -                  | -         |
| Special dividend  | (162,545)     | -                  | -                          | -                            | -                                    | -             | -                  | (162,545) |
| At 31 December 2019   | 380,970       | (4,864)            | (14)                       | 80,721                       | 60,204                               | (36,688)      | (37,552)           | 442,777   |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 33. RESERVES (Continued)

### (c) Nature and purpose of reserves of the Group and the Company

#### (i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

#### (ii) Share-based payments reserve

The share-based payments reserve represents the fair value of the actual or estimated number of unexercised share options and unvested RSUs granted to directors and employees of the Group recognised in accordance with the accounting policies adopted for equity-settled share-based payments in note 3 to the consolidated financial statements.

#### (iii) Shares held for the RSU scheme

The Company adopted the RSU scheme to award shares to qualified grantees. The Core Admin Boyaa RSU Limited was set up as a special vehicle for the purpose of holding the ordinary shares allotted and issued by the Company.

#### (iv) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the Articles of Association of subsidiaries of Shenzhen Dong Fang Bo Ya Technology Co., Limited, it is required to appropriate 10% of the annual statutory net profits after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions in the Articles of Association of Boyaa On-line Game Development (Shenzhen) Co., Limited, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by Boyaa On-line Game Development (Shenzhen) Co., Limited to its statutory surplus reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 33. RESERVES (Continued)

### (c) Nature and purpose of reserves of the Group and the Company (Continued)

#### (v) Other reserve

Other reserve mainly comprises cumulative net change in the fair value of equity investments at fair value through other comprehensive income held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 3 to the consolidated financial statements.

#### (vi) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3 to the consolidated financial statements.

## 34. SHARE-BASED PAYMENTS

### (a) Share options

On 7 January 2011, the Board of the Company approved the establishment of a share option scheme (“**Pre-IPO Share Option Scheme**”) with the objective to recognise and reward the contribution of eligible directors and employees to the growth and development of the Group. The contractual life of all options under Pre-IPO Share Option Scheme is eight years from the grant date.

On 23 October 2013, the Board of the Company approved the establishment of a share option scheme (“**Post-IPO Share Option Scheme**”) with the objective to recognise and reward the contribution of eligible directors and employees to the growth and development of the Group. The contractual life of all options under Post-IPO Share Option Scheme is ten years from the grant date.

Details of the share options outstanding during the year are as follows:

|  | Number of share options |             |
|--|-------------------------|-------------|
|  | 2019                    | 2018        |
| Outstanding at the beginning of the year | 8,323,315               | 10,707,790  |
| Exercised during the year                | –                       | (813,999)   |
| Lapsed during the year                   | (1,011,888)             | (1,570,476) |
| Outstanding at the end of the year       | 7,311,427               | 8,323,315   |
| Exercisable at the end of the year       | 7,311,427               | 4,369,924   |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 34. SHARE-BASED PAYMENTS (Continued)

### (a) Share options (Continued)

No options were exercised in 2019. Options exercised in 2018 resulted in 813,999 shares being issued at a weighted average price of USD0.37 each. The related weighted-average share price at the time of exercise was HK\$3.28 per share as at 31 December 2018.

Details of the exercise prices and the respective numbers of share options which remained outstanding as at 31 December 2019 and 2018 are as follows:

| Expiry date      | Exercise price    |                    | Number of share options |           |
|------------------|-------------------|--------------------|-------------------------|-----------|
|                  | Original currency | Equivalent to HK\$ | 2019                    | 2018      |
| 31 January 2019  | USD0.05           | 0.388              | –                       | 11,888    |
| 1 March 2020     | USD0.10           | 0.775              | 2,749                   | 2,749     |
| 30 June 2020     | USD0.15           | 1.163              | 66,249                  | 66,249    |
| 6 September 2025 | HK\$3.108         | 3.108              | 7,242,429               | 8,242,429 |
|                  |                   |                    | 7,311,427               | 8,323,315 |

### (b) RSU

Pursuant to a resolution passed by the Board of the Company on 17 September 2013, the Company set up a RSU scheme with the objective to incentivise directors, senior management and employees for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

RSUs held by a participant that are vested may be exercised (in whole or in part) by the participant serving an exercise notice in writing to The Core Trust Company Limited (the "RSU Trustee") and copied to the Company.

The RSU scheme will be valid and effective for a period of eight years from 4 March 2013 to 3 March 2021, commencing from the date of the first grant of the RSUs.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

### 34. SHARE-BASED PAYMENTS (Continued)

#### (b) RSU (Continued)

Movements in the number of RSUs outstanding:

|  | Number of RSUs |              |
|--|----------------|--------------|
|  | 2019           | 2018         |
| At 1 January                                 | 7,781,613      | 20,480,853   |
| Lapsed                                       | (8,368)        | (904,631)    |
| Vested and transferred                       | (2,184,000)    | (11,794,609) |
| At 31 December                               | 5,589,245      | 7,781,613    |
| Vested but not transferred as at 31 December | 5,589,245      | 6,973,402    |

The related weighted-average share price at the time when the RSUs were vested and transferred was HK\$1.56 (2018: HK\$3.09) per share.

#### (c) Shares held for RSU scheme

The shares held for RSU scheme were regarded as treasury shares and had been presented as a deduction against shareholders' equity. During the year, 2,184,000 of RSUs were vested and transferred (Note (b) above), and as a result, 58,640,617 ordinary shares (2018: 60,824,617 ordinary shares) of the Company underlying the RSUs were held by The Core Admin Boyaa RSU Limited as at 31 December 2019.

### 35. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the Group's changes in liabilities arising from financing activities during the year:

|  | Lease liabilities<br>RMB'000 | Dividend payables<br>RMB'000 | Total liabilities from financing activities<br>RMB'000 |
|--|------------------------------|------------------------------|--|
| At 1 January 2018 and 31 December 2018   | –                            | –                            | –  |
| Effect of changes in accounting policies | 12,884                       | –                            | 12,884   |
| <b>At 1 January 2019</b>                 | <b>12,884</b>                | <b>–</b>                     | <b>12,884</b>  |
| <b>Changes in cash flows</b>             | <b>(5,320)</b>               | <b>(162,545)</b>             | <b>(167,865)</b>                                       |
| <b>Non-cash changes</b>                  |                              |                              |  |
| – Addition                               | 1,800                        | –                            | 1,800  |
| – Interest charged                       | 659                          | –                            | 659  |
| – Dividend declared                      | –                            | 162,545                      | 162,545  |
| <b>At 31 December 2019</b>               | <b>10,023</b>                | <b>–</b>                     | <b>10,023</b>  |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 36. LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

|  | 2018<br>RMB'000 |
|--|-----------------|
| Within one year                        | 7,253           |
| In the second to fifth years inclusive | 10,745          |
|  | 17,998          |

Operating lease payments represents rentals payable by the Group for certain of its offices and servers. Leases are negotiated and rentals are fixed over 1 to 5 years and do not include contingent rentals.

## 37. RELATED PARTY TRANSACTIONS

(a) *In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions and balances with its related parties during the year:*

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Amount due from a director included in other receivables      | 657             | 657             |
| Amount due from a related party included in other receivables | 2,003           | 2,003           |
| Commission charges paid/payable to an associate               | –               | 180             |
| Amount due to an associate included in other payables         | –               | 17              |

The amount due from a director, from a related party and to an associate are unsecured, interest-free and repayable on demand.

(b) *Key management personnel compensations*

The compensations paid or payable to key management personnel (including directors, chief executive officer and other senior executives) for employee services are shown below:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries, allowances and bonuses        | 2,489           | 3,194           |
| Retirement benefit scheme contributions | 60              | 60              |
| Share-based payments                    | 14              | 112             |
|   | 2,563           | 3,366           |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 38. MATERIAL EVENTS

In March 2019, the Company has come to the attention that it was not able to continue to use the idle cash in its individual bank accounts (the “**Relevant Idle Cash Reserves**”) for fixed-term deposits or wealth management (the “**Incident**”). At 31 December 2019, the Group’s investments at fair value through profit or loss of approximately RMB363 million and cash and cash equivalents of approximately RMB288 million were frozen.

At the relevant time, the Company considered that the Incident may be implicated as a result of the Case (as defined below) involving individual Employees (as defined below), as such, the Company has engaged its PRC legal advisers (the “**PRC Legal Advisers**”) to advise on this matter. Upon engagement of the PRC Legal Advisers, the PRC Legal Advisers have submitted applications to the relevant PRC court and procuratorate on behalf of the Company in relation to the Incident, including an application to utilize the Relevant Idle Cash Reserves.

Upon advice of the PRC Legal Advisers, the Company filed another application (the “**Application**”) to the relevant PRC court on 21 August 2019 seeking to utilize the Relevant Idle Cash Reserves for wealth management. On 27 August 2019, the Company received a reply (the “**Reply**”) from the relevant PRC court that the Relevant Idle Cash Reserves were frozen due to a prosecution (the “**Case**”) made by the relevant PRC judicial authority against its individual current or former employees (the “**Employees**”) for their alleged illegal activities conducted through one of the Company’s onshore online gaming platforms (the “**Alleged Crime**”). Therefore, the Application was rejected. As advised by the PRC Legal Advisers, if the relevant PRC judicial authority finds that the Employees are guilty of the Alleged Crime and some or all of the Relevant Idle Cash Reserves contain income generated as a result of such conduct, such income may be confiscated.

On 27 December 2019, the Intermediate People’s Court of Chengde City, Hebei Province (the “**Trial Court**”) delivered the judgement in relation to the Case (the “**Judgement**”). The Trial Court held that the Employees are guilty of the Alleged Crime and ordered an amount of approximately RMB943 million to be paid to the state treasury (the “**Judgement Amount**”).



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 38. MATERIAL EVENTS *(Continued)*

The Company is not a party to the Case. As at the date of this report, none of the Company, its directors and its senior management had been subject to any prosecution or investigation by the relevant PRC judicial authorities in relation to the Alleged Crime. In addition, the Company had not received any notification from any relevant PRC judicial authority in relation to the Judgement Amount and so far as the Company is aware, the other bank accounts had not been frozen by the relevant PRC judicial authorities.

The Company is discussing with its PRC Legal Advisers as to the next step forward in relation to the Judgement, including the possibility to take appropriate legal actions as to the Judgement Amount to protect the interests of the Company and its shareholders. As advised by the PRC Legal Advisers, as at the date of this report, one of the Employees had applied for appeal against the Judgement and therefore, the Judgement will not be enforceable and the Trial Court will not order the Judgement Amount to be paid until the Judgement from the appeal hearing has been handed down. As at the date of this report, the date of the appeal hearing has not been fixed.

In light of the fact that (i) the Company, its directors and senior management had not been subject to any prosecution by the relevant PRC judicial authority in relation to the Alleged Crime as at the date of this report; (ii) the Relevant Idle Cash Reserves of the Company are only used for the purpose of investing in fixed-term deposits and wealth management products, which is the Company's general practice; (iii) the Company has sufficient cash reserves available in the other bank accounts for its day-to-day operations; (iv) the Company does not have any loan borrowing as at the date of this report; and (v) as at 31 December 2019, the Group recorded current assets in the sum of approximately RMB1.73 billion, the Judgement Amount accounted for approximately 54.6% of the then Group's current assets, the Board is of the view that the Judgement would not have any material adverse impact on the business, operation and financial conditions of the Group.

As such, certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of certain restricted bank deposits previously classified under term deposits and bank and cash balances, hence the cash flows from restricted bank deposits reclassified in investing activities. The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group.

## 39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 May 2020.