青瓷游戏
QINGCI GAMES

2021
Annual Report

青瓷游戏有限公司
Qingci Games Inc.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 6633

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Xu *(Chairman)*
Mr. Huang Zhiqiang
Mr. Liu Siming
Mr. Zeng Xiangshuo

Independent Non-executive Directors

Mr. Zhang Longgen
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

AUDIT COMMITTEE

Mr. Zhang Longgen *(Chairman)*
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

REMUNERATION COMMITTEE

Professor Lam Sing Kwong Simon *(Chairman)*
Mr. Zhang Longgen
Mr. Yang Xu

NOMINATION COMMITTEE

Mr. Yang Xu *(Chairman)*
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

JOINT COMPANY SECRETARIES

Mr. Zhu Chengyin
Ms. So Shuk Yi Betty

AUTHORIZED REPRESENTATIVES

Mr. Liu Siming
Ms. So Shuk Yi Betty

REGISTERED OFFICE IN CAYMAN ISLANDS

PO Box 309, Ugland House
Grand Cayman, KY1−1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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361008, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

LEGAL ADVISORS

As to Hong Kong law

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37th Floor, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE ADVISOR

Red Solar Capital Limited
Unit 402B, 4/F
China Insurance Group Building
No.141 Des Voeux Road Central
Central, Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall, Cricket Square
Grand Cayman
KY1–1102
Cayman Islands

PRINCIPAL BANKS

Bank of China Limited
Xiamen Cross Strait Financial Center Sub Branch
No. 495, Gaolin Middle Road
Huli District, Xiamen
Fujian, China

China Merchants Bank Co., Ltd.
Xiamen Wuyuanwan Sub Branch
1/F, Sanfu Financial Center
No.990 Anling Road
Huli District, Xiamen
Fujian, China

China Merchants Bank Co., Ltd.
Hong Kong Branch
31/F, Three Exchange Square
8 Connaught Place, Hong Kong

China Merchants Bank Co., Ltd. (Off-shore Banking Department) Shenzhen China
18/F, China Merchants Bank Building
No.18, Lingshiguan Road
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COMPANY WEBSITE

www.qcplay.com

LISTING DATE

December 16, 2021

STOCK CODE

6633

Financial Highlights

	For the year ended December 31,		
	2021	2020	Change
	(RMB'000)	(RMB'000)	(%)
Revenue	**1,105,816**	1,226,920	(10)
Gross profit	**812,599**	942,355	(14)
(Loss)/profit attributable to equity holders of the Company	**(367,231)**	103,739	(454)
Non-IFRS measure:			
Adjusted net profit[(1)]	**422,147**	166,156	154

Note:

(1) *We define adjusted net profit as net (loss)/profit for the period adjusted by adding back changes in fair value of convertible redeemable preference shares, loss from financial instruments issued to investors, listing expenses and share-based compensation. We eliminate the impacts of these items that our management do not consider to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses. In particular, changes in fair value of convertible redeemable preference shares, loss from financial instruments issued to investors and listing expenses will not recur after the Listing. Changes in fair value of convertible redeemable preference shares will not recur after the Listing as convertible redeemable preferred shares have been converted into ordinary shares upon the Listing. Loss from financial instruments issued to investors will not recur after the Listing because the financial instruments issued to investors were already derecognized upon the share exchange in May 2021. Our share-based compensation expenses are one-off and non-recurring in nature and not considered by our management to be indicative of our results of operation.*

KEY OPERATING INFORMATION

	For the year ended December 31,		
	2021	2020	Change (%)
Average MAUs (in thousands)[(1)]	**2,542**	3,448	(26.3)
Average MPUs (in thousands)	**440**	495	(11.2)
ARPPU (RMB)	**224**	206	8.4
Cumulative registered players (in thousands)	**71,960**	59,585	20.8

Notes:

(1) *Our Average MAUs are calculated by dividing (i) the total MAUs of a game; or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game's data before its official launch.*

(2) *Our Average MPUs are calculated by dividing (i) the MPUs of a game; or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game's data before its official launch.*

Chief Executive Officer's Statement

Dear Shareholders, Qingci staff, and all our friends who have been with us all along,

Hope this letter finds you well!

The year 2021 marks the first year of our listing on the Hong Kong Stock Exchange and the 10th anniversary of Qingci Games. It has been a decade of rapid development for the Chinese gaming industry and a decade of growth for us.

In the past ten years, we devoted ourselves to developing mobile games that provide captivating contents as well as distinctive and engaging gameplay experiences and growing our Company into a celebrated game developer and publisher with global presence. Thanks to the unremitting efforts of our employees, we were able to achieve outstanding results: a huge-and-continuously-growing community made up of 10.53 million loyal and active fans, whom we hail as "QingCi Enthusiasts", with 72 million cumulative registered users and 2.54 million monthly active users. We are now running six mobile games concurrently, with a strong pipeline of 11 games. I feel deeply proud of these results.

Over the last decade, I saw our fan base kept growing as more and more players recognized Qingci Games and became QingCi Enthusiasts. We built them a community, where they made friends with those who shared common interests and contributed valuable ideas to our developers, helping them make our games better. I saw our lovely staff, exhaust themselves polishing even the smallest detail of their work, daring to make changes, and daring to rebuild everything only to make it better. They attentively listened to the players sharing their experience in social media groups, applying their wits to make the game popular among gamers. With the support of the players, we have given back to the community and fulfil the spirit of public welfare. We travelled long distance into the poverty and disaster-stricken areas, stood at the front line fighting COVID-19 and helping people in need. I saw Qingci Games, as the only gaming company listed on the Hong Kong Stock Exchange in 2021, gain the trust and recognition of our shareholders and investors.

The year 2021 posed both opportunities and challenges on China's gaming industry, and in the face of such a complex business environment, we managed to render outstanding operating results, with our adjusted net profit increasing by 154.2% to RMB420 million compared with the same period last year, in addition to a gross profit of RMB810 million and a gross profit margin of 73%. "The Marvelous Snail (《最強蝸牛》)", one of our self-developed blockbusters, brought us a cashflow of more than RMB2 billion within 14 months since its launch and the strong performance continues, in light of which we are enthusiastically preparing for its release in Japan, Europe, the United States and Southeast Asia. With the successful release of "Lantern and Dungeon (《提燈與地下城》)", our another blockbuster, we pocketed a cash flow of RMB180 million in the first month, reaping both reputation and market share. Other games in our portfolio didn't disappoint us either. Here in Qingci, we believe that a company that rises abruptly is based on its accumulated strength, and it is in line with our continuous effort in our integrated mode of research and operation: on the one hand, we will continue to strengthen our game research and development to build up our pipeline games; on the other hand, we will strengthen product distribution, and actively expand our overseas distribution team, preparing ourselves for sustainable growth in the future.

As one of greatest Chinese poets suggested, "Do what you want now, when there is still room to exhibit your talent", at the beginning of a new financial year, we look forward to seeing how Chinese gaming industry will be revitalised and how Qingci will embark on a journey in the capital market. We believe that more and more great games will be created and presented to gamers in China and around the world, and Qingci will leave a deep footprint in this process of our dedication in creating quality "China-made" games and introducing the magnificent culture of our country to the world.

On behalf of the Board of Directors and the management of the Company, I would like to sincerely thank all the Qingci staff for their perseverant hard work, their spirit of unity and teamwork, and the progress they made last year; as well as our shareholders, investors and partners for their valuable trust and support. As the renowned Chinese philosopher Lao Tzu said, "ceaseless water goes much farther than that of high speed". We will remain faithful to our original aspiration, and determinedly forge our way forward. We will continue to develop and operate more quality games, in an effort to bring distinctive gameplay experiences to our players, ideal returns to our shareholders and greater contributions to society.

Huang Zhiqiang
Executive Director and the Chief Executive Officer

March 24, 2022

BUSINESS REVIEW

As an established mobile game developer and publisher in China, we are committed to offering engaging experiences to game players around the world through our landmark and captivating games and content.

During the period under review, the Group's cumulative registered players reached 72.0 million, representing a year-on-year increase of 20.8% as compared with last year; the average number of monthly active users reached 2.5 million. QingCi continued to maintain its pace of progress, constantly attracting players' attention by virtue of captivating content, distinctive game punchlines, striking designs and graphics, and often humorous twists. The Group's games have performed well, in line with its continuous effort in the integrated mode of research and operation. In terms of research and development, the Group continued to create prime games with original IPs, of which its landmark mobile game, *The Marvelous Snail (最強蝸牛)*, has continued to record strong performance during the year. In terms of game publishing, we customized the publication and operation methods for each game based on the characteristics of each game, players' interests and the characteristics of the distribution channels. For instance, *Lantern and Dungeon (提燈與地下城)*, which was launched in March 2021, has achieved good results with respect to both word of mouth and in the market.

OUR GAMES

The Group develops, publishes and operates top-rated online mobile games. As of December 31, 2021, we had six existing mobile games, covering idle games, rogue-like RPG and other RPG.

Below is an overview of our landmark games, based primarily on their revenue contribution, ratings and market reception.

The Marvelous Snail (最強蝸牛), officially launched in June 2020, is our self-developed idle game. It generated gross billings exceeding RMB400 million in the first month following its launch in June 2020, over RMB1.8 billion in the first year after its launch and approximately RMB2.2 billion as of December 31, 2021. The game recorded more than 21.1 million cumulative registered players as of December 31, 2021. In addition, it had an average MAU of 1.2 million and an average MPU of over 208 thousand for the year ended December 31, 2021. Further, the average weekly player retention rate of *The Marvelous Snail (最強蝸牛)* exceeded 26.4% from its launch to December 31, 2021. During the Reporting Period, we released major game version updates such as "蝸牛與黃鸝鳥" *(Snail and Oriole)* and "時空孔隙" *(A Crack in the Space Dimension)* and had collaborations with renowned IPs such as *Detective Chinatown 3 (唐人街探案3)* and *Scissor Seven (刺客伍六七)* to further enrich our game content and plot and to enhance players' game experience. Since its launch until December 31, 2021, the game has received over 190 times of "Editor's Choice" on the iOS App Store in China and for the year ended December 31, 2021, the game received 77 times of "Editor's Choice" recommendation on the iOS App Store in China and obtained the highest ranking of No. 6 on the iOS Bestseller Games List in China in 2021. In 2021, *The Marvelous Snail (最強蝸牛)* obtained the highest ranking of No. 2 on the App Store Bestseller Adventure Games List in Hong Kong and Taiwan, and it also obtained the highest ranking of No. 3 on the Google Play Free Role-Playing Games Chart in Hong Kong. In addition, *The Marvelous Snail (最強蝸牛)* won the "Best Casual Game of the Year 2021" award selected by the Xiaomi Internet Global Eco Partner Conference in 2021. The game generated aggregate revenues of approximately RMB821 million for the year ended December 31, 2021.

Gumballs & Dungeons (不思議迷宮) is our self-developed rogue-like RPG launched in August 2016. It maintained its outstanding performance, though it has been launched for more than five years. It has also been recommended by both Google Play and iOS App Store in multiple regions around the globe. It had received 85 times of "Editor's Choice" recommendation and obtained the highest score of 4.9 out of 5.0 on the iOS App Store in China from its launch to December 31, 2021. In 2021, it generated total gross billing of approximately RMB50 million and achieved an average MAU of over 218 thousand. The game generated aggregate revenues of RMB20 million for the year ended December 31, 2021.

Lantern and Dungeon (提燈與地下城) is our in-licensed rogue-like RPG officially launched in March 2021. It had more than one million active users with peak concurrent users exceeding 250,000 on its official launch day in March 2021. The game topped the iOS Top 10 Free Games Chart in China for six consecutive days after its launch and obtained the highest ranking of No. 4 on the iOS Bestseller Games List in China. During the Reporting Period, we have released three major game version updates including "光暗對決" *(Light and Dark Showdown)*, "元素塔再現" *(Element Tower Recurrence)*, and "伊芙琳幻境開啟" *(Beginning of Evelynn's Fantasy)* which further enriched the gameplay of the game. The game received 38 times of "Editor's Choice" recommendation on the iOS App Store as of December 31, 2021. The game generated gross billings exceeding RMB180 million in the first month following its launch. As of December 31, 2021, it had recorded approximately 4.7 million cumulative registered players. For the year ended December 31, 2021, it achieved an average MAU of over 657 thousand, an average MPU of over 168 thousand and an average weekly player retention rate of 33.8%. The game generated aggregate revenues of RMB250 million for the year ended December 31, 2021.

Ares Virus (阿瑞斯病毒), launched in August 2018, is our in-licensed survival RPG with a top-down still view and distinct fresh ballpoint style. It had already received more than 200,000 advanced reservations before its official launch in August 2018 and it obtained a score of 8.6/10 on TapTap, higher than the average level of game score (around 6/10) on TapTap. It topped the iOS Paid Games List in China overnight after its official launch, and it remained as one of the top 10 iOS Paid Adventure Games for over 30 days. The game received over 18 times of "Editor's Choice" recommendation, amongst all, 11 times of "Editor's Choice" recommendation were received in 2021, and obtained the highest score of 4.8 out of 5.0 on the iOS App Store in China as of December 31, 2021. Even without incurring substantial cost for customer acquisition, *Ares Virus (阿瑞斯病毒)* achieved great reputation and brand recognition. As of December 31, 2021, *Ares Virus (阿瑞斯病毒)* had recorded more than 16 million cumulative registered players. At its peak, it achieved an MAU of 3.6 million. For the year ended December 31, 2021, it achieved an average weekly player retention rate of 24.7%. The game generated aggregate revenues of RMB9.0 million for the year ended December 31, 2021.

Eternal Adventure (無盡大冒險), launched in June 2015, is one of our self-developed classic games that combine the features of idle gameplay experience and Diablo-like adventure. As of December 31, 2021, the game received over 150 times of "Editor's Choice" recommendation and obtained the highest score of 4.7 out of 5.0 on the iOS App Store in China. It also recorded over 1.9 million cumulative registered players as of December 31, 2021. The game generated aggregate revenues of RMB3.7 million for the year ended December 31, 2021.

PLAYER COMMUNITY

We have nurtured vibrant QingCi community of players on various mobile game forums and social media platforms. We attract players to our QingCi community mainly through introducing our social media platform accounts in our games, and we retain players by organizing activities and encouraging player interactions via our official accounts on various social media platforms. We have a dedicated operation team that manages our player community accounts and actively interacts with the community participants. Meanwhile, we have opened an offline experience store in Shanghai to further enhance our interactions with players. Through the QingCi community, our players can receive from us the latest information about our games, including the recent events we organize, opportunities to participate in testing our new games and free in-game virtual items. We also proactively seek players' feedback on our games and organize online and offline player activities to enhance players' sense of belonging and identification with us.

As of December 31, 2021, our games had accumulated 10.53 million QingCi Enthusiasts who contacted us through our official accounts and groups on social media platforms, such as Tencent QQ, WeChat, TapTap and Bilibili.

OUTLOOK

In 2022, the Group will continue to enrich its pipeline games, including deploying existing games to explore overseas markets, continuing to create new prime games with original IPs and licensing in quality games.

At present, the Group has a pipeline of 11 mobile games, covering a wide range of genres and types, including RPG, SLG and ACT RPG, etc..

Title	Mobile Game Genre	Source	Development Stage as of December 31, 2021	Expected Launch Time(1)
Time Voyager (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	2022
Servitor Project (使魔計劃)	Idle game	Developed in-house	Game production, testing and optimization	2022
Loot Rush (騎士沖呀)	ACT RPG	In-licensed	Game production, testing and optimization	2022
Ares Virus 2 (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	2023
Bladeheart Ninja 2 (刃心2)	Parkour	In-licensed	Game production, testing and optimization	2023
Project E	SLG	Developed in-house	Demo production	2023
Project B	Casual games	In-licensed	Game production, testing and optimization	2023
Project D	STG	In-licensed	Demo production	2024
Project MN	Simulation games	In-licensed	Demo production	2024
Project A	Tower defense	Developed in-house	Game production, testing and optimization	2024
Project C	ACT	In-licensed	Game production, testing and optimization	2024

Note:

(1) The expected launch time for each game refers to the launch time for the first local version of the game to be released. The title, genre, expected launch time and other information of each game in the pipeline may be subject to changes according to their respective development and, in the case of games to be launched in China, preapproval status.

In terms of the existing games, the Group will continue to push forward its plans for overseas market exploration, for example, the local version of the Group's landmark game *The Marvelous Snail (最強蝸牛)* will be launched in Japan in 2022 and the Group is also preparing for its release in America, Europe and Southeast Asia.

In terms of self-developed games, the Group's new self-developed work titled *Time Voyager (時光旅行社)* has completed its first round of testing in Hong Kong, Macau and Taiwan. While inheriting the Group's original innovative design, genre and type strengths and personal expression in gameplay, it also enriched its "social" attributes. It is regarded as one of the key products in the Group's pipeline games.

The remaining self-developed games have also recorded positive R&D progress: *Servitor Project (使魔計劃)* is entering the paid testing stage, while the SLG game *Project E* has also entered the high-speed iterative stage for the demo version.

In terms of in-licensed games, the Group will continue to promote the development of its existing in-licensed games, for example, *Loot Rush (騎士沖呀)* has completed several rounds of testing, and the Group will further implement its publishing plan for the relevant game during the year based on its testing status. Meanwhile, the Group will also continue to identify high-potential game developers, and as of February 28, 2022, a new simulation game *Project MN* has been added to the Group's in-licensed game pipeline.

The Group will consider, in a comprehensive manner, the game's supplement to our portfolio, its market potential, the potential for version updates and the in-house development capability of its developer, with an aim to create a diversified game portfolio across different genres and types to offer players with upgraded experiences. We will also continue to build our QingCi universe primarily through developing original, iconic IP for our games including by integrating cultural elements, and supplemented by peripheral products and pan-entertainment content, such as comics, videos and other merchandise. We are committed to achieving synergies among the various IPs within our QingCi universe, such as by embedding gameplay elements of our existing IPs into our new games to connect our various IPs, thereby increasing player stickiness and enhancing the ability of monetization.

FINANCIAL REVIEW

Revenue

Our revenue is mainly derived from (i) game operating business where we generate revenues primarily from the sales of in-game virtual items; (ii) game licensing business where we generate revenues from licenses fees paid by third-party publishers; and (iii) information services business where we generate revenues from providing performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers' products in our games to players.

The following table sets forth a breakdown of our revenues by line of business for the years ended December 31, 2020 and 2021.

	For the year ended December 31,				
	2021		2020		**2021 vs. 2020 % Change**
	RMB'000	**%**	RMB'000	%	
Game operating revenues					
Self-developed	**790,938**	**71.5**	1,082,298	88.2	**(26.9)**
Licensed	**259,785**	**23.5**	11,150	0.9	**2,230**
Subtotal	**1,050,723**	**95**	1,093,448	89.1	**(3.9)**
Game licensing revenue	**35,789**	**3.2**	58,576	4.8	**(38.9)**
Information service revenue	**19,304**	**1.8**	74,896	6.1	**(74.5)**
Total revenues	**1,105,816**	**100.0**	1,226,920	100.0	**(9.9)**

Game Operating Revenues

Our game operating revenues decreased by 3.9% to RMB1,050.7 million for the year ended December 31, 2021 on a year-on-year basis. In particular,

- Our revenue from self-developed games decreased by 26.9% to RMB790.9 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to a decrease in revenue from *The Marvelous Snail (最強蝸牛)*.

- Our revenue from licensed games increased by 2,230% to RMB259.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to an increase in revenue driven by the launch of *Lantern and Dungeon (提燈與地下城)* in March 2021.

Game Licensing Revenues

Our game licensing revenues decreased by 38.9% to RMB35.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the decrease in license fees from *Gumballs & Dungeons (不思議迷宮)* and *The Marvelous Snail (最強蝸牛)* in Hong Kong, Macau and Taiwan.

Information Service Revenue

Our revenues from information service decreased by 74.5% to RMB19.3 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to fewer in-game advertisement views or clicks.

Cost of Revenues

Our cost of revenues increased by 3.0% from RMB284.6 million for the year ended December 31, 2020 to RMB293.2 million for the year ended December 31, 2021 on a year-on-year basis. Our cost of revenues primarily consisted of (i) commissions charged by distribution and payment channels, representing revenue share payments to third-party distribution platforms and payment service providers for our self-published games; (ii) commissions charged by third-party game developers; (iii) bandwidth and servers custody fee; (iv) employee benefits expenses related to our system maintenance and customer service personnel, including wages, salaries, bonuses, social insurance contributions and other employee benefits; and (v) others, including outsourced technical service fees for short messaging services, professional service fees and miscellaneous expenses.

The following table sets forth our cost of revenue by nature in absolute amounts and as percentages of our total cost of revenues for the years ended December 31, 2021 and 2020.

	For the year ended December 31,				2021 vs. 2020 % Change
	2021		2020		
	RMB'000	**%**	RMB'000	%	
Commissions charged by distribution and payment channels	**206,825**	**70.5**	249,107	87.5	**(17)**
Commissions charged by third-party game developers	**40,919**	**14.0**	2,430	0.9	**1,584**
Bandwidth and servers custody fee	**21,862**	**7.5**	16,022	5.6	**36.4**
Employee benefits expenses	**9,193**	**3.1**	9,844	3.5	**(6.6)**
Others	**14,418**	**4.9**	7,162	2.5	**101.3**
Total	**293,217**	**100.0**	284,565	100.0	**3.0**

Our cost of revenue for commissions charged by distribution and payment channels decreased by 17% to RMB206.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to lower distribution costs charged by distribution platforms attributable to lower game revenue.

Our cost of revenue for commissions charged by third-party game developers increased by 1,584% to RMB40.9 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to an increase in commissions charged by third-party developers driven by the success in launching *Lantern and Dungeon (提燈與地下城)* in March 2021.

Our cost of revenue for bandwidth and servers custody fee increased by 36.4% to RMB21.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the launching of *Lantern and Dungeon (提燈與地下城)* in March 2021.

Our cost of revenue for others increased by 101.3% to RMB14.4 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the launching of *Lantern and Dungeon (提燈與地下城)* in March 2021 resulting in an increase in outsourced technical service fees.

Gross Profit and Gross Margin

Our gross profit decreased by 13.8% from RMB942.4 million for the year ended December 31, 2020 to RMB812.6 million for the year ended December 31, 2021. Our gross margin decreased to 73% for the year ended December 31, 2021 from 77% for 2020, primarily due to an increase in the proportion of revenue generated from in-licensed games resulting in a rise in commission payable to third-party developers.

Selling and Marketing Expenses

Our selling and marketing expenses consisted of (i) marketing and promotion expenses paid to our online and offline marketing service providers, including traffic acquisition and brand marketing and promotion expenses, which represented 93.7% and 90.0% of our total selling and marketing expenses for the year ended December 31, 2020 and 2021, respectively; (ii) employee benefits expenses related to our sales and marketing personnel; and (iii) others, including office expenses incurred for our sales and marketing activities and miscellaneous expenses.

Our selling and marketing expenses decreased by 45.6% from RMB559.2 million for the year ended December 31, 2020 to RMB304.2 million for the year ended December 31, 2021. This was primarily due to a decrease in promotion expenses as *The Marvelous Snail (最強蝸牛)* entered into the maturity stage, partially offset by higher promotion expenses for *Lantern and Dungeon (提燈與地下城)*.

Research and Development Expenses

Our research and development expenses consisted of (i) employee benefits expenses related to our R&D staff; (ii) outsourced technical service fee; and (iii) others, including office expenses incurred for our R&D activities, depreciation of right-of-use assets, rental expenses, utilities and miscellaneous expenses.

Our research and development expenses decreased by 38% from RMB146.1 million for the year ended December 31, 2020 to RMB91.2 million for the year ended December 31, 2021. This was primarily due to the decrease in bonuses for R&D projects as a result of the decrease in revenue from *The Marvelous Snail (最強蝸牛)*, partially offset by the increase in R&D investment in other projects under development by the Company.

General and Administrative Expenses

Our general and administrative expenses primarily consisted of (i) employee benefits expenses related to our supporting staff; (ii) share-based compensation; (iii) depreciation of right-of-use assets on our leases; (iv) listing expenses; (v) tax surcharges, including VAT surcharges and stamp duty; (vi) rental expenses and utilities; and (vii) others, including office expenses, depreciation of property, plant and equipment, professional services fee and miscellaneous expenses.

Our general and administrative expenses decreased by 16% from RMB102.9 million for the year ended December 31, 2020 to RMB86.9 million for the year ended December 31, 2021. After offsetting the impact from share-based compensation of RMB56.0 million in 2020 and one-off listing expenses of RMB45.8 million incurred in 2021, the general and administrative expenses decreased by 12.4% in 2021 as compared to that of 2020, primarily due to the decrease in revenue from *The Marvelous Snail (最強蝸牛)* and the corresponding decrease in performance bonus paid.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

Our fair value changes on investments measured at fair value through profit or loss reflected changes in the fair value of (i) certain of our long-term equity investments, which were equity investments in private equity funds as limited partners without significant influence, and investments in investee companies; and (ii) our short-term investments, primarily consisting of investments in derivative instruments with a major PRC commercial bank and investments in funds that invest primarily in publicly-traded securities.

Our fair value gains on investments measured at fair value through profit or loss increased by 746.8% from RMB0.6 million for the year ended December 31, 2020 to RMB5.0 million for the year ended December 31, 2021, mainly due to our investments in unlisted companies and the fair value gains on our existing investments.

Other Income

Our other income primarily consisted of (i) interest income from loans to third parties and related parties; (ii) interest income from financial assets at amortized cost, mainly representing interest income from term deposits; and (iii) subsidies, mainly including government subsidies granted by local governments to support our R&D activities and in recognition of our contribution to local economic development.

Our other income remained stable in 2021 and the Reporting Period at RMB11.4 million and RMB11.1 million, respectively.

Other Losses, Net

Our net other losses primarily consisted of (i) net foreign exchange gains or losses mainly arising from revenue and trade receivables denominated in U.S. dollars; (ii) donations to charity organizations; and (iii) dividend distribution from a private equity fund we invested in.

Our net other losses decreased by 65.4% from RMB27.1 million for the year ended December 31, 2020 to RMB9.4 million for the year ended December 31, 2021, this change was primarily a result of the appreciation of RMB against U.S. dollars in 2020 affecting our U.S. dollar dominated revenues and trade receivables.

Income Tax Benefit/(Expenses)

Our income tax expenses decreased by 440.7% from income tax expenses of RMB9.6 million for the year ended December 31, 2020 to a income tax benefit of RMB32.6 million for the year ended December 31, 2021, mainly due to 1) increase in deferred tax assets of RMB38.4 million, which was mainly related to our tax losses in certain subsidiaries and marketing and promotion expenses to be deductible for tax purposes in foreseeable future periods, 2) a decrease in current income tax of RMB3.8 million which was resulted from the decrease in revenue from overseas licensing.

(Loss)/Profit for the Year

Our (loss)/profit for the year decreased by 455.4% from a net profit of RMB103.7 million for the year ended December 31, 2020 to a net loss of RMB368.6 million for the year ended December 31, 2021, mainly due to (i) changes in fair value of convertible redeemable preference shares; and (ii) loss from financial instruments issued to investors.

(Loss)/Profit for the year attributable to equity holders of the Company

Our (loss)/profit for the year attributable to equity holders of the Company decreased by 454.0% from a profit of RMB103.7 million for the year ended December 31, 2020 to a net loss of RMB367.2 million for the year ended December 31, 2021, mainly due to (i) changes in fair value of convertible redeemable preference shares; and (ii) loss from financial instruments issued to investors.

Non-IFRS Measures – Adjusted Net Profit

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

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely (i) changes in fair value of convertible redeemable preference shares; (ii) losses from financial instruments issued to investors; (iii) listing expenses; and (iv) share-based compensation. The term "adjusted net profit" is not defined under IFRS. 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 year. The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended December 31,	
	2021	2020
	(RMB'000)	(RMB'000)
(Loss)/profit for the year	**(368,638)**	103,739
Add:		
Changes in fair value of convertible redeemable preference shares	**691,052**	–
Losses from financial instruments issued to investors	**53,928**	6,400
Listing-related expenses	**45,805**	–
Share-based compensation	**–**	56,017
Adjusted net profit	**422,147**	166,156

The adjusted net profit for the year ended December 31, 2021 increased by 154.1% to RMB422.1 million as compared with RMB166.2 million for the year ended December 31, 2020. Such increase was primarily attributable to (i) our landmark game *The Marvelous Snail (最強蝸牛)* continued to record profit growth in 2021 after its launch in June 2020; and (ii) the success in launching *Lantern and Dungeon (提燈與地下城)* in March 2021 which drove our profit.

Liquidity, Capital Resources and Gearing Ratio

We fund our operations primarily through cash generated from our operating activities and capital contribution from our Shareholders.

As of December 31, 2021, the Group's total cash and cash equivalents increased by 163.5% from RMB443.2 million for the year ended December 31, 2020 to RMB1,168.1 million for the year ended December 31, 2021. The increase in total cash and cash equivalents during the period under review was primarily resulted from (i) funds generated from business operations, (ii) the pre-IPO financing, and (iii) proceeds raised from the Global Offering.

As of December 31, 2021, we did not have any borrowings. As of the same date, we had a banking facility of RMB50 million, and we did not draw down this facility as deposit to secure our obligations under our foreign currency forward contract.

As of December 31, 2021, the current assets of the Group amounted to approximately RMB1,615.9 million, and the current liabilities of the Group amounted to approximately RMB199.8 million. Current ratio is calculated as total current assets divided by total current liabilities. As of December 31, 2021 and 2020, the current ratio of the Group was 809% and 148%, respectively.

Gearing ratio is calculated as total liabilities divided by total assets. As of December 31, 2021 and 2020, the gearing ratio of the Group was 12% and 71%, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2021, revenue generated from the Group's five largest customers accounted for 5% (2020: 11%) of the Group's total revenue and our single largest customer accounted for 3% (2020: 6%) of the Group's total revenue.

Certain subsidiaries of G-bits, a substantial shareholder of our Company, have published our games. We refer to G-bits and its subsidiaries as the G-bits Group. G-bits Group is the single largest customer of the Group for the year ended December 31, 2021. Except for these companies, all of our five largest customers for the year ended December 31, 2021 were Independent Third Parties, and none of our Directors, their close associates or any Shareholders which, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the Group's five largest customers. We deal with all of our customers at arm's length. We negotiate game publishing agreements with the G-bits Group based solely on commercial considerations, and the transaction terms with them are comparable to those with Independent Third-Party customers.

Major Suppliers

For the year ended December 31, 2021 the Group's five largest suppliers accounted for 49% (2020: 62%) of the Group's total purchases and our single largest supplier accounted for 20% (2020: 20%) of the Group's total purchases.

Shenzhen Jishiwu Technology Co., Ltd., one of the Group's five largest suppliers for the year ended December 31, 2021, is our associate company in which we have minority equity interest and it provides game development services to us. Except for this company, all of our five largest suppliers for the year ended December 31, 2021 were Independent Third Parties, and none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the Group's five largest suppliers.

Material Acquisitions and Disposals and Significant Investments

The Group did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2021.

Pledge of Assets

As of December 31, 2021, we did not pledge any of our assets.

Capital Expenditure

For the year ended December 31, 2021, our total capital expenditure was approximately RMB5.9 million, compared to approximately RMB3.5 million for the year ended December 31, 2020. Our capital expenditure primarily included our purchase of property, plant and equipment, mainly related to the purchase of office equipment and vehicles. We funded these expenditures with cash generated from our operations. We plan to fund our future capital expenditures with our cash from operating activities.

Contingent Liabilities

As of December 31, 2021, we did not have any material contingent liabilities.

Foreign Exchange Risk Management

We operate globally through overseas third-party publishers and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Our foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. We managed our foreign exchange risk exposures through foreign currency forward contracts during the year ended December 31, 2021.

Employee and Remuneration Policy

As of December 31, 2021, we had 432 full-time employees, substantially all of whom were based in China and 9 of whom were based in Japan.

We recruit talent primarily from job fairs as well as word-of-mouth referrals. We provide regular training to our employees covering various aspects including our culture and technical know-how. We also follow up with the employees to evaluate the effect of the training, which is aimed at enhancing our employees' skillset and helping them stay up to date with industry and technology developments. In addition, we discover and incubate future game producers who display strong innovation and game design talent. We encourage and support our employees keen on mobile game development to become our producers. They may form new core project teams with other like-minded employees to develop new games. We compensate our employees with salaries, welfare payments, and performance-based and annual bonuses.

Report of The Directors

The Board of the Company is pleased to present this annual report of Directors together with the Consolidated Financial Statements of the Group for the year ended December 31, 2021.

PRINCIPAL ACTIVITIES

We are an established mobile game developer and publisher in China, offering mobile games that are designed to provide captivating content as well as distinctive and engaging gameplay experiences to players in mainland China and overseas. As a leader in casual games, especially idle games, and rogue-like RPGs in China, we have developed, published and operated a number of popular games.

An analysis of the Group's revenue and operating results for the year ended December 31, 2021 by its principal activities is set out in Management Discussion and Analysis section.

Particulars of the Company' principal subsidiaries as at December 31, 2021 are set out in Note 1 "History and reorganisation of the Group" to the Consolidated Financial Statements.

BUSINESS REVIEW

A fair review of the business of the Group, the outlook of future development of the business of the Group as well as a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its financial performance and financial position as required by section 388(2) and Schedule 5 to the Companies Ordinance can be found in the section headed "Management Discussion and Analysis" of this annual report.

The financial risk management objectives and policies of the Group are set out in Note 3 "Financial Risk Management" to the Consolidated Financial Statements.

Further details relating to the Group's relationships with its key stakeholders, the Group's environmental policies and performance, as well as the compliance with the relevant laws and regulations that have a significant impact on the Group can be found in the Environmental, Social and Governance Report on pages 53 to 54. The "Management Discussion and Analysis" and the "Environmental, Social and Governance Report" form part of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the financial position of the Group for the last four years is set out on page 220 of this annual report.

RESULTS

The results of the Group for the year ended December 31, 2021 are set out in the Consolidated Financial Statements on pages 120 to 219.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the "2021 AGM") will be held on Monday, June 6, 2022. The notice of the 2021 AGM will be published on the websites of the Company (www.qcplay.com) and the Stock Exchange (www.hkexnews.hk) and sent to the Shareholders in April 2022.

FINAL DIVIDEND

The Board has recommended a final dividend of HK15.2 cents per Share for the year ended December 31, 2021, amounting to a total of HK$105 million. Subject to Shareholders' approval at the 2021 AGM, the proposed final dividend will be distributed on or before July 29, 2022 to Shareholders whose names appear on the register of members of the Company on Thursday, June 16, 2022.

CLOSURE OF REGISTER OF MEMBERS

In relation to the 2021 AGM

For ascertaining Shareholders' right to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, May 31, 2022 to Monday, June 6, 2022, both days inclusive, during which period no transfer of Shares will be effected.

In order to be eligible to attend and vote at the forthcoming 2021 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company 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 Monday, May 30, 2022 for registration.

In relation to the final dividend

In addition, in order to determine the entitlement of the Shareholders to receive the final dividend, the register of members of the Company will be closed from Tuesday, June 14, 2022 to Thursday, June 16, 2022, both days inclusive.

In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company 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 Monday, June 13, 2022 for registration. The record date for entitlement to the proposed final dividend is Thursday, June 16, 2022.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed in promoting a sustainable and environmental friendly environment. We endeavour to comply with the relevant laws and regulations regarding environmental protection and implement effective measures to achieve efficient use of resources, waste reduction and energy saving. For instance, (1) special personnel are arranged to inspect the waste of resources irregularly, for example, whether electrical power such as electronic equipment, lights and air conditioning are switched off or not; (2) reminders such as "Saving Power" are put up to the air conditioning and light switches; and (3) all end-of life electronic equipment and some equipment with secondary use value are handed over to suppliers with recycling qualifications for disposal in the daily operation and office activities. We also review our environmental policies on a regular basis.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Listing Rules, the Company's Environmental, Social and Governance Report can be found on pages 50 to 86.

PRINCIPAL RISKS AND UNCERTAINTIES

We face various risks involved in our daily business operations, including risks that are specific to our game publishing business as well as the industry and regulatory landscape in the PRC. In particular, our commercial launch of mobile games is subject to certain pre-approval and post-filing procedures with the relevant competent regulatory authorities in the PRC, which may change from time to time. For details, please refer to the sections headed "Risk Factors" and "Business–Legal Proceedings and Regulatory Compliance" in the Prospectus.

We also operate our business under contractual arrangements, and are therefore subject to the related risks which are summarized in the section headed "Contractual Arrangements–Risks relating to the Contractual Arrangements" on pages 36 to 42 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to various PRC laws and regulations in relation to its game publishing operations in the PRC, including, without limitation, in the aspects of value-added telecommunication services, game examination, publishing and operation, virtual currency, real-name registration, anti-addiction system, information security and censorship, and privacy protection.

As far as the Board and the management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

BOARD COMMITTEES

Please refer to pages 95 to 103 of the Corporate Governance Report for further details in relation to (1) Remuneration Committee, (2) Audit Committee, and (3) Nomination Committee as established by the Board.

DIRECTORS

The Directors during the Reporting Period and up to the Latest Practicable Date were:

Executive Directors

Mr. Yang Xu *(Chairman)*
Mr. Huang Zhiqiang *(Chief executive officer)*
Mr. Liu Siming
Mr. Zeng Xiangshuo

Independent Non-executive Directors

Mr. Zhang Longgen
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

In accordance with article 16.19 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their 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 provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Huang Zhiqiang, Mr. Liu Siming and Mr. Zeng Xiangshuo shall retire from office by rotation at the forthcoming 2021 AGM and, being eligible, will offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with us under which they agreed to act as Executive Directors for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner), which may be terminated by not less than three months' notice in writing served by either the Executive Director or us.

Each of the Independent Non-executive Directors has signed an appointment letter with us for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner), respectively, with effect from the Listing Date. Under their respective appointment letters, each of the Independent Non-executive Directors is entitled to a fixed Director's fee.

The above appointments are always subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended December 31, 2021. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Related Party Transactions" below and Note 35 "Related Party Transactions" to the Consolidated Financial Statements, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the Reporting Period.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

EMPLOYEES, REMUNERATION AND PENSION SCHEME

As of December 31, 2021, we had 432 full-time employees, most of whom were based in China and 9 of whom were based in Japan.

We offer our employees competitive compensation packages and a collaborative working environment and, as a result, we have generally been able to attract and retain qualified personnel and maintain a stable, core management team. We compensate our employees with basic salaries, subsidies, and performance-based and annual bonuses, and pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund.

We recruit talent primarily from job fairs as well as word-of-mouth referrals. We provide regular training to our employees covering various aspects including our culture and technical know-how. We also follow up with the employees to evaluate the effect of the training, which is aimed at enhancing our employees' skillset and helping them stay up to date with industry and technology developments. In addition, we discover and incubate future game producers who display strong innovation and game design talent. We encourage and support our employees keen on mobile game development to become our producers. They may form new core project teams with other like-minded employees to develop new games.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management are supervised by the Remuneration Committee and determined by the Board with reference to their duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in Note 7 "Directors' and chief executive's emoluments" to the Consolidated Financial Statements.

For the year ended December 31, 2021, the emoluments of senior management team (which comprises our executive Directors and other senior management members) fell within the following bands:

	Number of individuals
Emolument bands (in HKD)	
HKD2,000,000-HKD2.500,000	2
HKD3,000,000-HKD3.500,000	1
HKD3,500,000-HKD4,000,000	1
HKD4,500,000-HKD5,000,000	1
Total	5

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2021, none of the Directors or their associates has any competing interests in the businesses which compete or are likely to compete, directly or indirectly, with our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in Note 14 "Property, Plant and Equipment" to the Consolidated Financial Statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the Reporting Period and details of the Shares issued during the Reporting Period are set out in Note 24 "Share Capital And Share Premium" to the Consolidated Financial Statements.

DONATION

During the Reporting Period, the Group made RMB2.59 million of charitable donation to public welfare and charitable organizations.

DEBENTURE ISSUED

The Group did not issue any debenture during the Reporting Period.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the Reporting Period.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2021 are set out on page 219 to the Consolidated Financial Statements. The distributable reserves of the Company as at December 31, 2021 were RMB5,151 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2021 are set out in the section headed "Management Discussion and Analysis" in this annual report.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 87 to 113 of this annual report.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests or short positions of our Directors and chief executives in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest[(1)]
Mr. Yang Xu ("Mr. Yang")[(2)]	Settlor of a discretionary trust	206,057,019	29.81%
Mr. Huang Zhiqiang ("Mr. Huang")[(3)]	Settlor of a discretionary trust	25,015,715	3.62%
	Interest in controlled corporation	37,307,058	5.40%
Mr. Liu Siming ("Mr. Liu")[(4)]	Settlor of a discretionary trust	12,842,792	1.86%
Mr. Zeng Xiangshuo ("Mr. Zeng")[(5)]	Interest in controlled corporation	7,439,214	1.08%

Notes:

(1) *The calculation is based on the total number of issued shares of the Company as at the Latest Practicable Date, being 691,330,500 Shares.*

(2) *The Company is held as to 29.81% by Keiskei Holding Ltd., following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Keiskei Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Yang Family Holding Limited and 1% by Keiskei QC Ltd., a company wholly-owned by Mr. Yang. Yang Family Holding Limited is held by the Peter Yang Family Trust, which was established by Mr. Yang as the settlor. TMF (Cayman) Ltd. is the trustee of the Peter Yang Family Trust, and Mr. Yang and his family members are the beneficiaries of the Peter Yang Family Trust. As such, Mr. Yang is deemed to be interested in our Shares held by Keiskei Holding Ltd.. Mr. Yang is also a director of Keiskei Holding Ltd..*

(3) *The Company is held as to 3.62% and 5.40% by Intelligence QC Holding Ltd. and Intelligence QC Ltd., respectively, following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Intelligence QC Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Intelligence Future Holding Limited and 1% by Intelligence QC Ltd., a company wholly-owned by Mr. Huang. Intelligence Future Holding Limited is held by Intelligence Future Trust, which was established by Mr. Huang as the settlor. TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, and Mr. Huang and his family member are the beneficiaries of the Intelligence Future Trust. As such, Mr. Huang is deemed to be interested in our Shares held by Intelligence QC Holding Ltd. and Intelligence QC Ltd.. Mr. Huang is also a director of Intelligence QC Holding Ltd.*

(4) *The Company is held as to 1.86% by Gentle Tiger Holding Ltd., following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Gentle Tiger Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Sebastian Family Holding Limited and 1% by Gentle Tiger Ltd., a company wholly-owned by Mr. Liu. Sebastian Family Holding Limited is held by the Sebastian Family Trust, which was established by Mr. Liu as the settlor. TMF (Cayman) Ltd. is the trustee of the Sebastian Family Trust, and Mr. Liu and his family members are the beneficiaries of the Sebastian Family Trust. As such, Mr. Liu is deemed to be interested in our Shares held by Gentle Tiger Holding Ltd.. Mr. Liu is also a director of Gentle Tiger Holding Ltd.*

(5) *Cloud Rings Ltd. is a company incorporated in the BVI which owns 7,439,214 shares of the Company and is wholly-owned by Mr. Zeng. As such, Mr. Zeng is deemed to be interested in the 7,439,214 Shares held by Cloud Rings Ltd..*

Save as disclosed above, so far as the Directors and the chief executive of the Company are aware, none of the Directors or the chief executive of the Company had registered an interest or short position in any Shares or underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified under Division 7 and 8 of Part XV of the SFO or recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, the interests of relevant persons (other than a Director or the chief executive of the Company) who had interests or short positions in the Shares or the underlying shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding interest[(1)]
Keiskei Holding Ltd.[(2)]	Beneficial owner (L)	206,057,019	29.81%
Yang Family Holding Limited[(2)]	Interest in controlled corporation (L)	206,057,019	29.81%
Mr. Yang[(2)]	Settlor of a discretionary trust (L)	206,057,019	29.81%
HK Kunpan[(3)]	Beneficial owner (L)	128,243,058	18.55%
G-bits[(3)]	Interest in controlled corporation (L)	128,243,058	18.55%
Intelligence QC Ltd.[(4)]	Beneficial owner (L)	37,307,058	5.40%
Mr. Huang[(4)]	Settlor of a discretionary trust (L)	25,015,715	3.62%
	Interest in controlled corporation (L)	37,307,058	5.40%
Rapid Yacht Limited[(5)]	Beneficial interest (L)	50,156,076	7.26%
Mr. Ye Jiting ("Mr. Ye")[(5)]	Interest in controlled corporation (L)	50,156,076	7.26%
TMF (Cayman) Ltd.[(6)]	Trustee (L)	243,915,526	35.28%
Alibaba Qookka[(7)]	Beneficial interest (L)	36,884,938	5.34%
Alibaba[(7)]	Interest in controlled corporation (L)	36,884,938	5.34%

Notes:

(1) The calculation is based on the total number of issued shares of the Company as at the Latest Practicable Date, being 691,330,500 Shares.

(2) The Company is held as to 29.81% by Keiskei Holding Ltd., following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Keiskei Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Yang Family Holding Limited and 1% by Keiskei QC Ltd., a company wholly-owned by Mr. Yang. Yang Family Holding Limited is held by the Peter Yang Family Trust, which was established by Mr. Yang as the settlor. TMF (Cayman) Ltd. is the trustee of the Peter Yang Family Trust, and Mr. Yang and his family members are the beneficiaries of the Peter Yang Family Trust. As such, Mr. Yang is deemed to be interested in our Shares held by Keiskei Holding Ltd.. Mr. Yang is also a director of Keiskei Holding Ltd..

(3) HK Kunpan is a direct wholly-owned subsidiary of G-bits.

(4) The Company is held as to 3.62% and 5.40% by Intelligence QC Holding Ltd. and Intelligence QC Ltd., respectively, following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Intelligence QC Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Intelligence Future Holding Limited and 1% by Intelligence QC Ltd., a company wholly-owned by Mr. Huang. Intelligence Future Holding Limited is held by Intelligence Future Trust, which was established by Mr. Huang as the settlor. TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, and Mr. Huang and his family member are the beneficiaries of the Intelligence Future Trust. As such, Mr. Huang is deemed to be interested in our Shares held by Intelligence QC Holding Ltd. and Intelligence QC Ltd.. Mr. Huang is also a director of Intelligence QC Holding Ltd.

(5) The Company is held as to 7.26% by Rapid Yacht Limited following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022, and Rapid Yacht Limited is wholly owned by Mr. Ye. As such, Mr. Ye is deemed to be interested in our Shares held by Rapid Yacht Limited.

(6) TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, Peter Yang Family Trust and Sebastian Family Trust which in aggregate held 243,915,526 Shares. Hence, TMF (Cayman) Ltd. is deemed to be interested in such 243,915,526 Shares as a trustee.

(7) Alibaba Qookka is ultimately owned by Alibaba.

Saved as disclosed above, so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO, or as otherwise notified.

RELATED PARTY TRANSACTIONS

Details of the related party transactions were set out in Note 35 "Related Party Transactions" to the Consolidated Financial Statements. Details of any related party transaction which constitute continuing connected transaction not exempted under Chapter 14A of the Listing Rules are disclosed below.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of our Group constitute the continuing connected transactions of the Company for the year ended December 31, 2021.

Connected Persons

G-bits, through its indirect wholly-owned subsidiary, HK Kunpan, held 18.55% of the total issued shares in the Company following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Accordingly, G-bits is a substantial shareholder of our Group, and therefore G-bits and its subsidiaries are connected persons of our Company pursuant to Chapter 14A of the Listing Rules.

Property Leasing and Administrative Services

On November 18, 2021, the Company and G-bits entered into a property leasing and administrative services framework agreement (the "Property Leasing and Administrative Services Framework Agreement") pursuant to which G-bits and/or its subsidiaries shall lease to our Group office premises in an office building located in Xiamen, the PRC with an aggregate gross area of approximately 3,139.49 square meters as office premises and provide to our Group ancillary office administrative services for these office premises. We may rent additional property space from G-bits or its subsidiaries in accordance with the actual demand of our Group. The relevant tenants from our Group and the relevant landlords among G-bits and its subsidiaries shall enter into separate lease and administrative services agreements which shall set out the specific terms and conditions pursuant to the principles and conditions provided in the Property Leasing and Administrative Services Framework Agreement.

The initial term of the Property Leasing and Administrative Services Framework Agreement shall commence on the Listing Date and expire on December 31, 2023.

Reasons for and benefits of the transactions

Our Group have been leasing the abovementioned office premises for its business operations for more than three years. Any relocation may cause unnecessary disruption to our business operation and incur unnecessary costs.

Annual caps

The annual caps of the aggregate lease and administrative services payments to be made by our Group under the Property Leasing and Administrative Services Framework Agreement for the years ending December 31, 2021, 2022 and 2023 are as follows:

	For the years ending December 31,		
	2021	**2022**	**2023**
	(in thousand RMB)		
Lease and administrative services payments payable by our Group to G-bits Group	4,500	5,400	6,480

The total amount incurred by the Group under the Property Leasing and Administrative Services Framework Agreement for the year ended December 31, 2021 was approximately RMB4 million.

Game Cooperation with G-bits

On November 18, 2021, we and G-bits entered into a game cooperation framework agreement ("Game Cooperation Framework Agreement"), pursuant to which, our Group agreed to (i) license games of G-bits Group for publishing and operating on our platforms in designated regions on an exclusive basis (expense-based); and (ii) license our games to G-bits Group for publishing and operating such games on their platforms in designated regions on an exclusive basis (revenue-based). Our Group and G-bits Group also agreed to participate in marketing games licensed to the exclusive publication and operation of the other party. Our Group and G-bits Group shall pay fees to each other (as the case may be). The precise scope of cooperation, the calculation of fees and other details of the cooperation shall be agreed between the relevant parties separately.

The initial term of the Game Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2023.

Reasons for and benefits of the transactions

G-bits develops, publishes and operates a large number of online games in the PRC. While we typically publish and operate games which we self-developed, we also have commercial liberty to (i) engage third-party publishers to publish and operate games we self-developed; and (ii) obtain licenses from third-party game developers to publish and operate games owned by them to maximize our earnings. It is expected that our Group and G-bits Group could leverage each other's competitive advantages in products and platforms and players' pool to improve popularity of games owned by each other, increase the number of platform users and leverage each other's game publishing and operating capabilities.

Annual caps

The annual caps for the fees payable by our Group to G-bits Group and the fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement for the three years ending December 31, 2023 are set out in the table below:

		For the years ending December 31,		
		2021 (RMB)	**2022** (RMB)	**2023** (RMB)
(a)	Fees payable by our Group to G-bits Group *(Expense-based)*	5,500	54,000	25,000
(b)	Fees payable by G-bits Group to our Group *(Revenue-based)*	46,800	38,400	33,600

The total fees payable by our Group to G-bits Group (expense-based) and by G-bits Group to our Group (revenue-based) under the Game Cooperation Framework Agreement for the year ended December 31, 2021 were approximately RMB nil million and RMB35 million, respectively.

Marketing and Promotion Cooperation with G-bits

Pursuant to the Game Cooperation Framework Agreement, our Group and G-bits Group also agreed to cooperate on marketing and promoting games owned by the other party on its own platforms. G-bits Group shall provide marketing and promotion services, including but not limited to marketing, promotion and advertising to our Group for our games on platforms operated by G-bits Group. Meanwhile, our Group shall provide marketing and promotion services, including but not limited to marketing, promotion and advertising to G-bits Group for G-bits Group's games on platforms operated by our Group.

In return for the marketing and promotion services provided, our Group and G-bits Group will pay the other party marketing and promotion fees using one or more of the following methods, depending on the means of cooperation:

- Cost per action: charged based on the number of newly activated users;
- Cost per click: charged based on the price of each click and number of clicks of online users;
- Cost per sale: charged based on the users' actual top-up amount;
- Fixed amount of marketing and promotion fee with reference to the prevailing market rates; or
- Other fee arrangements agreed by the parties with reference to the prevailing market rates.

The channel expense will be agreed by the parties separately.

The initial term of the Game Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2023.

Reasons for and benefits of the transactions

Our Group has been engaging G-bits Group for their marketing and promotion services and we expect to continue on engaging G-bits Group for their marketing and promotion services. G-bits Group has a strong marketing platform in the PRC and offers comprehensive marketing and promotion services to mobile game companies. We believe that G-bits Group will be able to enhance popularity and commercial potential of our games extensively and we will tap into the diverse pool of potential game players on G-bits Group's platforms. In addition, we also expect to cooperate with G-bits Group on the provision of our marketing and promotion services to G-bits Group. As our Group continues to develop more games and operate more gaming platforms, we believe through providing marketing and promotion services to third party game developers (including G-bits Group), it will create a new revenue stream for our Group and diversify our revenue base and improve our market position.

Annual caps

The annual caps for the fees payable by our Group to G-bits Group and the fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement for the three years ending December 31, 2023 are set out in the table below:

		For the years ending December 31,		
		2021 (RMB)	**2022** (RMB)	**2023** (RMB)
(a)	Marketing and promotion services fees payable by our Group to G-bits Group *(Expense-based)*	25,000	30,000	36,000
(b)	Marketing and promotion services fees payable by G-bits Group to our Group *(Revenue-based)*	3,000	4,000	5,000

The total marketing and promotion services fees payable by our Group to G-bits Group (expense-based) and by G-bits Group to our Group (revenue-based) under the Game Cooperation Framework Agreement for the year ended December 31, 2021 were approximately RMB14 million and RMB0.2 million, respectively.

Confirmation by the Independent Non-executive Directors

The Independent Non-executive Directors have reviewed the above continuing connected transactions and has confirmed that such transactions are:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better terms; and

(iii) in accordance with the agreements related to such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation by the Auditors

Based on the work performed, the auditor of the Company confirmed to the Board that nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions:

(1) have not been approved by the Board;

(2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) have exceeded the annual cap as set by the Company.

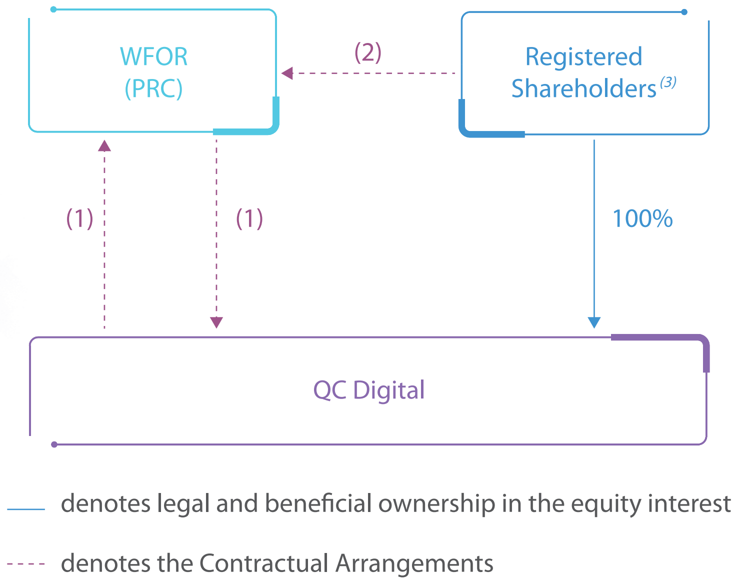
Save as disclosed above, the related party transactions referred in Note 35 to the Consolidated Financial Statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, and except the continuing connected transactions that were fully exempted pursuant to Chapter 14A of the Listing Rules, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company during the Reporting Period in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

On May 26, 2021, a series of Contractual Arrangements have been entered into by WFOE, QC Digital and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our PRC Consolidated Affiliated Entities. The existing agreements underlying such Contractual Arrangements comprise: (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Voting Rights Proxy Agreement and Powers of Attorney. The Contractual Arrangements allow the results of operations and assets and liabilities of QC Digital and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

The following simplified diagram illustrates the flow of economic benefits from our PRC Consolidated Affiliated Entities to WFOE as stipulated under the Contractual Arrangements.



Notes:

(1) *WFOE provides technical consultation and other services in exchange for service fees from QC Digital. See "–Summary of the Contractual Arrangements" below.*

(2) *The Registered Shareholders (i) executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in QC Digital; (ii) granted security interests in favor of WFOE, over the entire equity interests in QC Digital held by Registered Shareholders; and (iii) executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders' rights in QC Digital. The spouse of each relevant individual shareholders executed an undertaking in favor of WFOE. See "–Summary of the Contractual Arrangements" below.*

(3) *Wofan Qihang, G-bits, Xiamen Sealand, Guangxi Tencent Venture Capital Co., Ltd.(廣西騰訊創業投資有限公司), Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司) and Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) and the relevant individual shareholders (including Mr. Yang, Mr. Huang, Mr. Liu, Mr. Zeng, Mr. Wei, Mr. Ye and Mr. Lin) are collectively referred to as "Registered Shareholders.".*

(4) *In addition to the restricted and/or prohibited business of our Company, QC Digital also directly or indirectly holds investment in certain entities in the PRC (the "Relevant Entities" and each a "Relevant Entity"), each of which (i) is engaged in business subject to foreign investment prohibition under the Negative List which will impair the continuous validity of the relevant licenses or permits of the prohibited businesses held or invested by these entities; or (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List, however, such Relevant Entity intend to invest or engage in potential businesses which are subject to foreign investment prohibition and has expressly rejected our Company's proposed transfer of the interest in these entities held by QC Digital to WFOE. It would be impracticable to obtain the consent and/or the assistance from all of the relevant stakeholders required for our Company's proposed transfer of the interest in the Relevant Entities held by QC Digital to WFOE. For further details of these Relevant Entities, please refer to section headed "Contractual Arrangements" of the Prospectus.*

Summary of the Contractual Arrangements

A description of each of the specific agreements that comprises the Contractual Arrangements is set out below.

Exclusive Business Cooperation Agreement

Pursuant to an exclusive business cooperation agreement dated May 26, 2021 entered into between WFOE and QC Digital (the "Exclusive Business Cooperation Agreement"), QC Digital agreed to engage WFOE as its exclusive provider to provide QC Digital with technical consultation and services, including but not limited to, (i) business operation and management consultation; (ii) technical consultation; (iii) marketing and promotion consultation, and providing solutions for marketing and promotion; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and system; (vi) daily maintenance, debugging and troubleshooting of computer network equipment; (vii) rental of equipment; (viii) human resource support and employee training; and (ix) other services permitted under PRC law as required by QC Digital from time to time. In exchange for these services, QC Digital shall pay a service fee, which shall consist of the total consolidated profit of QC Digital in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions in the corresponding financial year, which may include any accumulated deficit of QC Digital and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any). Meanwhile, QC Digital agreed to any adjustment WFOE may make at its sole discretion on the service fee based on the (i) the complexity of the technical support, the technical consultation and other services provided; (ii) the time required for providing services; (iii) the content and commercial value of the services provided; and (iv) the market price of the same type of services. QC Digital has agreed to pay the service fee to a bank account designated by WFOE within five (5) business days after WFOE issues the payment notice. During the term of the Exclusive Business Cooperation Agreement, WFOE enjoys all the economic benefits in relation to our PRC Consolidated Affiliated Entities business operation.

The Exclusive Business Cooperation Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); (ii) terminated in writing by WFOE thirty days in advance; (iii) when QC Digital ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; or (iv) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the shareholder of QC Digital. QC Digital is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with WFOE.

Exclusive Option Agreement

Pursuant to an exclusive option agreement dated May 26, 2021, entered into among WFOE, QC Digital and the Registered Shareholders (the "Exclusive Option Agreement"), WFOE has the irrevocable, unconditional and exclusive right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders all or any part of their equity interests in QC Digital and from QC Digital all or any part of the assets of QC Digital at any time in WFOE's absolute discretion in accordance with the provision of the Exclusive Option Agreement and to the extent permitted by the PRC laws. The consideration in relation to purchasing equity interests from the Registered Shareholders shall be the nominal price or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from QC Digital shall be the lowest price as permitted under the applicable PRC laws. The Registered Shareholders shall return the consideration received to WFOE or any person/entity designated by WFOE.

The Exclusive Option Agreement shall remain effective unless terminated in the event that (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); or (ii) in writing by WFOE thirty days in advance.

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement dated May 26, 2021 entered into between WFOE, QC Digital and the Registered Shareholders (the "Equity Pledge Agreement"), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in QC Digital to WFOE as collateral security for securing the performance of their obligations under the Contractual Arrangements or for any and all of the secured indebtedness under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends arising from the equity interests in QC Digital held by the Registered Shareholders.

The Equity Pledge Agreement came into effect upon execution and shall remain valid until after all the contractual obligations of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully settled. The Registered Shareholders should complete the registration with the relevant administration for market regulation in accordance with the Equity Pledge Agreement.

Voting Rights Proxy Agreement and Powers of Attorney

The Registered Shareholders, WFOE and QC Digital entered into the voting rights proxy agreement (the "Voting Rights Proxy Agreement") on May 26, 2021, pursuant to which, each of the Registered Shareholder agreed to enter into a power of attorney respectively (the "Powers of Attorney") through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of QC Digital in accordance with applicable laws and the articles of association of QC Digital. These rights include, among other things, the rights (i) to propose, convene and attend shareholders' meetings of QC Digital, and sign shareholders' meeting minutes, resolutions and other relevant documents in the capacity of a proxy of the Registered Shareholders; (ii) to exercise the voting rights on behalf of the Registered Shareholder on all the resolutions which shall be approved at shareholders' meeting, including but not limited to (a) the election and appointment of directors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; (b) the sale, transfer, pledge or disposal of any or all equity interests or assets of QC Digital; (c) the decision on the increase or decrease QC Digital's registered capital, and merger, division, dissolution or liquidation of QC Digital; and (d) the amendments to the articles of association of QC Digital; (iii) to submit any required document to relevant government authorities; (iv) to sign or submit any required document to any company registry or other authorities; (v) to designate or appoint and remove the legal representative, directors, supervisors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; and (vi) the right to exercise any other rights of shareholders pursuant to PRC laws and the articles of association of QC Digital.

The Voting Rights Proxy Agreement shall remain effective unless (i) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the sole shareholder of QC Digital; or (ii) terminated in writing by WFOE thirty days in advance.

Spouse Undertakings

The spouse of each of the relevant individual shareholders, where applicable, has signed an undertaking (the "Spouse Undertakings") to the effect that (i) the spouse has full knowledge of and unconditionally and irrevocably consents to the entering into the Contractual Arrangements (as amended from time to time) among the respective relevant individual shareholders, WFOE and QC Digital; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in QC Digital from time to time) and take all necessary actions to ensure the appropriate implementation of the Contractual Arrangements; (iii) the spouse has no direct right to or interest in such interests of the relevant individual shareholder and will not have any claim on such interests; and (iv) in the event that the spouse of the relevant individual shareholders holds the interests in QC Digital, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and QC Digital as requested by WFOE.

Reasons for adopting the Contractual Arrangement

Our principal business, being the publication and operation of games through mobile apps and websites, falls within the scope of both (i) internet cultural business, which according to the Negative List foreign investments are prohibited to operate; and (ii) "value-added telecommunication service" under the Telecommunications Regulations (《電信條例》), where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business. In view of the aforementioned PRC regulatory background, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. For further details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements" of the Prospectus.

Risks relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government finds that our Contractual Arrangements are not in compliance with applicable PRC laws and regulations, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our PRC Consolidated Affiliated Entities.

- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. QC Digital or its shareholders may fail to perform their obligations under our Contractual Arrangements.

- Any failure by QC Digital or its shareholders to perform their obligations under our Contractual Arrangements with them would have a material adverse effect on our business.

- Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- We may lose the ability to use and enjoy assets held by any of our PRC Consolidated Affiliated Entities that are material to our business operations if it goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

- Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

- The shareholders of QC Digital may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

- If we exercise the option to acquire equity ownership and assets of QC Digital, the ownership or asset transfer may subject us to substantial costs.

- We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

- PRC regulation of loans to and direct investments in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and PRC Consolidated Affiliated Entities, or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

- The Contractual Arrangements may subject us to scrutiny by PRC tax authorities and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

For further details of these risks, please refer to the section headed "Risk Factors–Risks Related to Our Contractual Arrangements" of the Prospectus.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(i) major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion as and when they arise;

(ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in our annual reports; and

(iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

i. the transactions carried out during the year ended December 31, 2021 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;

ii. no dividends or other distributions had been made by our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;

iii. the Contractual Arrangements are on normal commercial terms and are fair and reasonable, and in the interest of our Company and its Shareholders as a whole (so far as our Group is concerned).

Our Auditor has confirmed in a letter to our Board that the transactions under the Contractual Arrangements have been approved by our Board, the transactions carried out during the year ended December 31, 2021 had been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that no dividends or other distributions had been made by our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

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

Save for the issuance of 6,330,500 ordinary shares on January 12, 2022 pursuant to the partial exercise of the over-allotment option as disclosed in the announcement of the Company dated January 10, 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the listing of the Company on December 16, 2021 to the Latest Practicable Date.

MATERIAL LITIGATION

During the Reporting Period, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatening against the Company.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Stock Exchange on December 16, 2021. The net proceeds received from the Global Offering (taking into account the partial exercise of the over-allotment option and after deducting the underwriting fees and commission and other estimated expenses payable by the Company in connection with the Global Offering) was approximately HK$925.8 million.

The table below sets out the planned usage of the net proceeds from the Global Offering and actual usage up to December 31, 2021:

Use of proceeds	**Net proceeds from the Global Offering (after taking into account the partial exercise of the over-allotment option)** (HK$ million)	**Utilized amount up to December 31, 2021** (HK$ million)	**Unutilized amount up to December 31, 2021** (HK$ million)	**Expected timeline for fully utilizing the unutilized amount**[(1)]
For expanding our game portfolio and invest in our game R&D capabilities and related technologies	324.0	–	324.0	by December 2024
For expanding our business in the overseas markets	231.4	–	231.4	by December 2024

Use of proceeds	Net proceeds from the Global Offering (after taking into account the partial exercise of the over-allotment option) (HK$ million)	Utilized amount up to December 31, 2021 (HK$ million)	Unutilized amount up to December 31, 2021 (HK$ million)	Expected timeline for fully utilizing the unutilized amount[1]
For strengthening our game publication and operation capabilities in China's mobile game market and the market recognition of our "QingCi" brand and our IPs	138.9	–	138.9	by December 2024
For pursuing strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain	138.9	–	138.9	by December 2024
For working capital and general corporate purposes	92.6	–	92.6	by December 2023
Total	925.8	–	925.8	

Note:

(1) *The expected timeline for utilization of the unutilized proceeds disclosed above is based on the best estimation from the Board in accordance with latest information as at the Latest Practicable Date.*

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive Directors, has reviewed the results of the Group for the year ended December 31, 2021 together with its auditors, and have discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the Annual General Meeting.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after December 31, 2021 and up to the Latest Practicable Date.

For and on behalf of the Board
Qingci Games Inc.
Liu Siming
Executive Director

Hong Kong, March 24, 2022

Biographies of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. YANG Xu (楊煦), aged 41, is the founder and the president of the Group and was appointed as an executive Director and chairman of our Board on June 19, 2021. He is primarily responsible for the overall strategic planning and research and development of the Group.

Mr. Yang has been deeply involved in the game industry for more than 15 years. Mr. Yang founded our Group in March 2012, he had been the general manager until August 2019, and since then, he has been the president of our Group. In addition, he is also the executive director and general manager of QC Cultural and the director of QC HK, respectively. Prior to founding the Company, Mr. Yang served as a producer of G-bits Network Technology (Xiamen) Co., Ltd., which is an online game and web game developer in China, during the period from December 2005 to August 2012.

Mr. HUANG Zhiqiang (黃智強), aged 40, is the chief executive officer of the Group and was appointed as an executive Director on March 12, 2021. Mr. Huang is primarily responsible for the management and development of our Group's business.

Mr. Huang served as the chief operating officer when he joined the Group in March 2012. Subsequently, he has been the chief executive officer since September 2019. Before joining our Group, he worked as a project manager of Sichuan Shengpu Information Technology Co., Ltd. from August 2005 to February 2012.

Mr. Huang graduated from the Chengdu University (成都大學) in July 2002 with a bachelor's degree in e-commerce.

Mr. LIU Siming (劉斯銘), aged 42, is the chief financial officer of the Group and was appointed as an executive Director on June 19, 2021. Mr. Liu is mainly responsible for the planning and management of finance and capital market activities of our Group.

Mr. Liu has been the chief financial officer since he joined our Group in February 2021. Before joining our Group, Mr. Liu served in various positions at Jinko Group. From 2018 to February 2021, Mr. Liu was the vice president of Jinko Power Technology Co Ltd. Prior to that, he was the investor relationship director of JinkoSolar Holding Co., Ltd. from December 2011 to October 2018, and responsible for investor relation matters. Mr. Liu also served as the secretary of the board of Jinko Power Technology Co Ltd. between July 2020 and February 2021. Prior to joining JinkoSolar Holding Co., Ltd., Mr. Liu also worked in the financial risk management department of KPMG LLP's Houston office since 2008 and subsequently in the financial advisory service department of the Beijing Branch of Deloitte & Touche Financial Advisory Services Limited.

Mr. Liu received his bachelor's degree in computer science and technology and master's degree in management science and engineering from the Beijing Institute of Technology (北京理工大學) in July 2003 and in March 2006, respectively. He also obtained the master of business administration degree from Baylor University in December 2007.

Mr. ZENG Xiangshuo (曾祥碩), aged 40, is the chief operating officer of the Group and was appointed as an executive Director on June 19, 2021. Mr. Zeng is primarily responsible for the investment, marketing channels and oversea business of our Group.

Mr. Zeng currently serves as the chief operating officer of our Group from August 2019. Previously, he was the deputy manager of our Group from February 2014 to August 2019. Prior to joining our Group, Mr. Zeng worked at Sichuan Hongxin Software Co., Ltd. from June 2011 to February 2014. Mr. Zeng was an account manager of Chengdu Lingrui Zhitong Technology Co., Ltd. from October 2010 to June 2011. He also worked as a sales manager at Sichuan Shengpu Information Technology Co., Ltd. from November 2006 to September 2010.

Before that, Mr. Zeng served in the IT department of Chengdu Yinhe Magnet Co., Ltd. from July 2005 to November 2006.

Independent Non-executive Directors

Mr. ZHANG Longgen (張龍根), aged 58, is our independent non-executive Director since Listing Date. He is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Zhang is currently the chief executive officer of Daqo New Energy Corp., which is listed on the New York Stock Exchange (ticker symbol: DQ). Before joining Daqo New Energy Corp. in January 2018, he worked as the chief financial officer in JinkoSolar Holding Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: JKS) from September 2008 to September 2014. He also worked in Xinyuan Real Estate Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: XIN) as the chief financial officer from August 2006 to August 2008 and director from August 2006 to December 2008.

Mr. Zhang has been an independent director of X Financial (a company listed on the New York Stock Exchange, ticker symbol: XYF) since September 2018. Mr. Zhang had been an independent non-executive director of Zhongjin Technology Services Group Company Limited (formerly known as ZZ Capital International Limited, a company listed on the Stock Exchange, stock code: 8295) from January 2018 to April 2021 and a director of JinkoSolar Holding Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: JKS) from May 2014 to December 2020.

Mr. Zhang obtained his master's degrees in professional accounting and business administration from West Texas A&M University in December 1992 and in December 1994, respectively. In addition, Mr. Zhang was qualified as a certified public accountant and was granted such certificate by the State Board of Public Accounting of the State of Texas in the United States in August 1995. He further obtained his membership from the American Institute of Certified Public Accountants in July 2002.

Professor LAM Sing Kwong Simon (林誠光), aged 63, is our independent non-executive Director since Listing Date. He is primarily responsible for supervising and providing independent judgment to our Board.

Professor Lam is currently a professor of Management and Strategy at the Faculty of Business and Economics of the University of Hong Kong. He has published a number of academic papers and case analyzes on the topics of corporate strategy, organization development and operations management. Before joining the University of Hong Kong in September 1989, Professor Lam worked as a regional support manager in the Canadian Imperial Bank of Commerce from 1987 to June 1989.

Professor Lam has been an independent non-executive director of several listed companies, including Overseas Chinese Town (Asia) Holdings Limited (a company listed on the Stock Exchange, stock code: 3366) since May 2009, Sinomax Group Limited (a company listed on the Stock Exchange, stock code: 1418) since March 2014 and Kwan On Holdings Limited (a company listed on the Stock Exchange, stock code: 1559) since March 2015. Professor Lam has also been a non-executive director of Jacobson Pharma Corporation Limited (a company listed on the Stock Exchange, stock code: 2633) since April 2016.

Professor Lam received a doctorate degree in commerce from the Australian National University in April 1996.

Professor Lam was a director of AS & T Consultants Limited which was incorporated in Hong Kong and was dissolved by means of striking off on March 8, 2002 pursuant to the then section 291(6) of the predecessor Companies Ordinance. Professor Lam confirmed that the said company was solvent and inactive at the time of it being struck off and that its dissolution has not resulted in any liability or obligation imposed against him.

Ms. FANG Weijin, (方煒瑾), aged 38, is our independent non-executive Director since Listing Date. She is mainly responsible for supervising and providing independent judgement to our Board.

Ms. Fang is currently working as vice president, chief human resource officer, general manager of human resource department of Fosun Tourism Group (a company listed on the Stock Exchange with stock code: 1992) since November 2020, where she also serves as the vice president and chief human resources officer of Thomas Cook Group (托邁酷客集團) and co-chief human resources officer of Fosun Happiness Industry Operation Committee* (复星大快樂產業運營委員會). From April 2017 to October 2020, she has served several positions at Fosun International Limited. Before joining Fosun International Limited, Ms. Fang worked at KPMG China, Shanghai from July 2007 to April 2017 and was a senior manager at the time when she departed from KPMG China.

Ms. Fang obtained her bachelor's degrees in international economics and trade and in business from Shanghai University (上海大學) and from University of Technology Sydney, respectively, in July 2007. Ms. Fang was also qualified as a project management professional by the Project Management Institute in December 2014.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. YANG Xu (楊煦), aged 41, is the founder and the president of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed "– Executive Directors" in this section.

Mr. HUANG Zhiqiang (黃智強), aged 40, is the chief executive officer of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed "– Executive Directors" in this section.

Mr. LIU Siming (劉斯銘), aged 42, is the chief financial officer of the Group and was appointed as a senior management of the Group in February 2021. For further details, please refer to the paragraph headed "– Executive Directors" in this section.

Mr. ZENG Xiangshuo (曾祥碩), aged 40, is the chief operating officer of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed "– Executive Directors" in this section.

Mr. WEI Shumu (魏樹木), aged 41, has been appointed as the chief technology officer of the Group in August 2019. He is primarily responsible for overseeing the current technology and creating the relevant policy of our Group.

Prior to joining the Group, Mr. Wei had served as a program director in G-bits Network Technology (Xiamen) Co., Ltd. from August 2007 to August 2012. Previously, from August 2005 to March 2006, he worked as a developmental engineer in Tencent Technology (Shenzhen) Co., Ltd.

Mr. Wei received his bachelor's degrees in mathematics and applied mathematics as well as computer science and technology, respectively, from Wuhan University (武漢大學) in June 2004.

Each of our senior management members has confirmed that he or she does not and has not held any other directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately prior to the Latest Practicable Date.

CHANGE IN INFORMATION OF DIRECTORS

Save as disclosed above, as of December 31, 2021, there has been no change to the information of the Directors subject to disclosure under Rule 13.51B(1) of the Listing Rules.

Environmental, Social and Governance Report

ABOUT THE REPORT

Qingci Games Inc (the "Company", stock code: 6633) sincerely issues the *Environmental, Social and Governance Report* (hereinafter referred to as "ESG Report", or the "Report") to disclose the Group's strategies, performance, and vision on ESG to stakeholders. This is the first ESG Report of the Group.

SCOPE OF REPORT

The Report covers the period from January 1, 2021 to December 31, 2021 (referred to as the "reporting period"), in consistency with the financial year period covered by the Group's annual report.

Unless otherwise specified, the disclosure of environmental and social aspects in the Report covers main operating entities of the Group (collectively referred to as "Qingci", "the Group" or "We") in China, namely offices in Xiamen and Chengdu.

REPORTING STANDARDS AND PRINCIPLES

The Report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* (the "ESG Guide") in Appendix 27 to the Listing Rules of the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It is suggested that the content related to corporate governance in the Report be read together with the corporate governance report contained in the annual report. This Report is prepared in accordance with the following reporting principles required in the ESG Guide:

Importance

Key stakeholders were identified and key ESG topics were determined through stakeholder engagement and materiality assessment in the course of the Report preparation.

Quantification

The Report uses quantitative data to present key performance indicators at the environmental and social aspects, explaining its purpose and impacts.

Consistency

The Report is the first ESG report of the Group. We will adopt a consistent disclosure statistical method in subsequent years and provide historical data comparison.

Balance

The Report follows the principle of "Balance" and objectively demonstrates the Group's ESG performance.

DATA SOURCE AND RELIABILITY STATEMENT

The information disclosed in the Report comes from the original data of the actual operation of the Group, annual financial data, relevant internal statistical statements, administrative documents and reports, etc. Unless otherwise specified, all monetary amounts quoted in the Report are shown in Renminbi ("RMB"). In case of any inconsistency with the financial report, the financial report shall prevail. The Group confirms that there are no false statements, misleading statements or major omissions in the Report, and is responsible for the authenticity, accuracy and completeness of its content.

REPORT FORM

The Report is available in traditional Chinese and English. The electronic version of the Report is available on the website of the Stock Exchange(http://www.hkexnews.hk) and our website (https://www.qcplay.com/).

CONFIRMATION AND APPROVAL

The management team of the Company has confirmed to the Board of Directors that the Group's risk management and internal monitoring system related to environmental, social and governance (hereinafter referred to as "ESG") is effective for the year ended December 31, 2021. The Report was approved at the board meeting held on March 24, 2022.

CONTACT US

We encourage all stakeholders to provide opinions and make suggestions on the Group's ESG report and performance.

You are welcomed to contact us in the following ways:

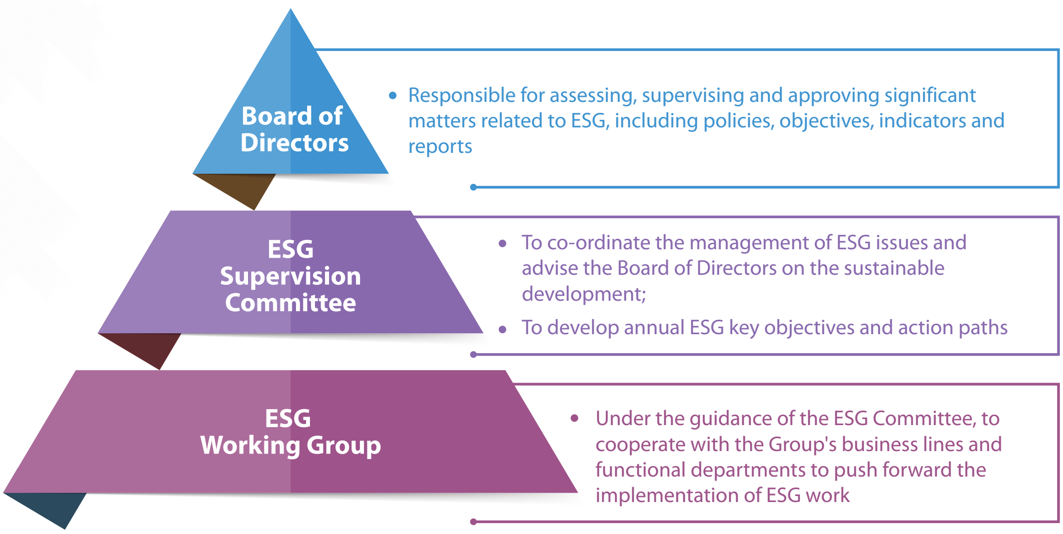
Address: No. 4, Wanghai Road, Software Park Phase II, Xiamen, Fujian, 361008
Email: ir@qcplay.com

1. ESG MANAGEMENT

1.1. ESG management

Qingci Games Inc. strictly complies with the legal and regulatory requirements of the countries/regions where we operate, and has established a scientific and efficient governance mechanism with distinct responsibilities. The Company acknowledges and firmly believes in the benefits from diversity of the Board of Directors. The nomination and appointment of board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, industry experience, professional background, educational and cultural background. For details of responsibility scope and corporate governance of the Company's committees, please refer to *Corporate Governance* section of the Company's Annual Report.

We are deeply aware of the importance of bolstering environment and social benefits for sustainable operation. We have also incorporated ESG-related risks and opportunities into our business strategy to guide our day-to-day operations. Under the Board of Directors, we set up the ESG Supervision Committee, which is composed of the Chief Executive Officer, Chief Operating Officer, Head of Law, Head of Human Resources, Head of Administration and other senior management representatives, to manage ESG affairs in concert, while reporting to the Board of Directors regularly. At the same time, we have formulated the ESG policy, which sets out key ESG objectives and responsibilities.



1.2. Stakeholders communication

We attach great importance to the communication with stakeholders. At this regard, we value their opinions and requirements as an important driving force for the continuous improvement of ESG management. We actively understand and respond to the expectations and demands of stakeholders through a variety of channels. We have identified significant stakeholders that interact with the Group's operations, as shown in the table below.

Stakeholders	Expectations and requirements	Engagement methods	Frequency of engagement
Shareholders or investors	• Safeguarding shareholders' interests and rights • Compliance operation and management • Information disclosure • Return on investment	• Shareholders' general meeting • Announcements (annual reports, circulars and announcements) • Website of the Company and the Hong Kong Stock Exchange • Investors' conferences and roadshows	Multiple times per year
Government or regulatory authorities	• Compliant operation • Taxation in accordance with law • Social contribution	• Visitor reception • Announcements (annual reports, circulars and announcements) • Supervision and inspection	Multiple times per month

Stakeholders	Expectations and requirements	Engagement methods	Frequency of engagement
Users	• User experience • Information security and privacy protection	• User feedback channel • User service agreement • The Company's website and social media interactions	Multiple times per week
Employees	• Safeguarding employees' interests and rights • Health and safety • Compensation and benefits • Training and development	• Internal office system • Online and offline training activities • Employee satisfaction survey	Multiple times per month
Suppliers	• Open, fair and equal procurement • Business ethics • Mutual benefits and win-win	• Public tendering • Supplier assessment • Field trips • Daily communication	Multiple times per week
Communities	• Community involvement • Charitable projects	• Gaming platform • The Company's website and social networking	Multiple times per year

1.3. Materiality assessment

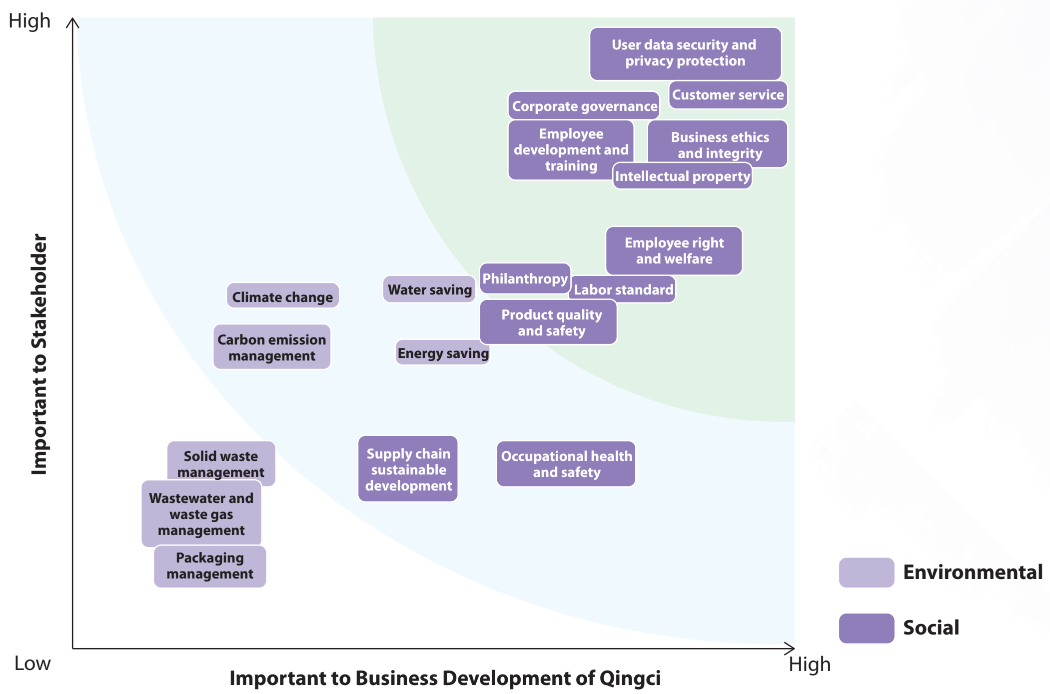
In order to assess the Group's ESG risks and material ESG issues, understand and respond to the expectations of stakeholders regarding the Group's ESG work, we conducted a materiality assessment during the reporting period through the following steps:

- **Identification of issues**: We sorted out a total of 19 ESG issues in accordance with the requirements of *ESG Reporting Guide*, and with reference to ESG issues concerned by capital market and best practices of domestic and overseas peers;

- **Questionnaire**: The Group identified significant internal and external stakeholders and invited them to assess the materiality of each issue through questionnaires, which enabled us to understand their opinions and suggestions;

- **Confirmation of results**: We practice statistics on the questionnaire collected, from which we rank the importance of each issue, considering two dimensions i.e. "Importance to the Company's business" and "Importance to stakeholders", and combining propositions from the Company's management and specialists, the following matrix of significant issues is drawn.

2021 Materiality Assessment Result



2. RESPONSIBLE OPERATION

2.1. Product responsibility

The comprehensive guarantee of product quality is our long-standing development concept. The Group conscientiously abides by relevant laws and regulations, strictly circumscribes the platform content, and strives to protect the legitimate rights and interests of users and consumers.

2.1.1. Healthy games

We comply with the requirements of laws and regulations such as the *Advertising Law of the PRC*, the *Interim Measures for the Administration of Internet Advertising*, and strictly control the marketing information distributed through varied channels to ensure the compliance of publicity, promotion and external advertising.

- *Anti-addiction measures for minors*

  We strictly abide by national laws and regulations and regulatory requirements, including the *Administrative Measures of the PRC on Internet Information Services*, the *Notice of Preventing Minors from Indulging in Online Games by the General Administration of Press and Publication*, and the *Notice of Further Strengthening the Management of Preventing Minors from Indulging in Online Games*. We actively adopt various measures to prevent minors from indulging and has implemented the anti-addiction management.

  We have strengthened the requirements for user identity verification, and implemented a real-name registration system for online game user accounts. We verify the identity of game players in strict manner, and effectively restrict and manage the gaming behaviour of underage users, including time limits and payment limits for underage users. We have connected all games released in China's mainland to the real-name registration and game anti-addiction system of the General Administration of Press and Publication.

We strictly abide by the anti-addiction requirements of games in China

- The Real Name Registration System requires players to register with valid identity information, and those who do not will be forbidden to log in the game

- The consumption limits for minors are implemented in accordance with relevant regulatory guidelines

- Minors under the age of 8 cannot purchase in games

- The cumulative game-playing time for minors is monitored, calculated and limited: Minors can only log in the games for one hour from 8:00 p.m. to 9:00 p.m. on Fridays, Saturdays, Sundays or on national statutory holidays. Once the time limit is exceeded, a prompt will pop up and force the player to log out

2.1.2. Experience improvement

We attach great importance to players' game experience, actively focus on players' needs, and set up a dedicated technical teams to test and adjust the game repeatedly during the R&D and operation stages, to ensure that the game runs smoothly, and pursue the continuous improvement of game quality and playability.

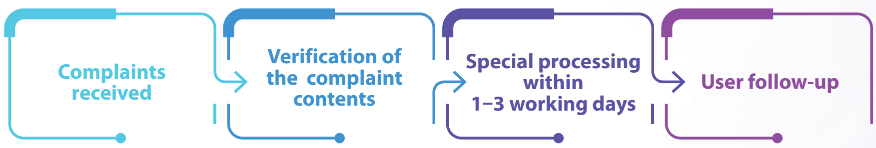
- *Continuously optimizing the gaming experience*
  The Group attaches great importance to the optimization of game experience. The management and game distribution and operation teams are closely involved in the whole game production and testing process. Through comprehensive approaches such as collecting player feedback and analysing player behaviour, the Group manages continuous optimization and version updates covering the entire life cycle of the game.

Development and release stage	**Internal development** – Research industry trends, players' demands and rapidly changing preferences, and feedback on existing games; – Make a trial version of the game, after internal professional testing, the management evaluates and invites external players to try, collect game functions and experience feedback, and further optimize game technical problems; – Carry out multiple rounds of tests throughout all stages of the game production process to improve the details of game development. **Third party developer** – Since the third party developers were given the demo version of the game, they assigned a dedicated team to optimize the game and conduct several rounds of testing and evaluation to enhance the quality of the game and improve the player experience.
Operation stage	– Timely detect and repair technical problems and regularly update the game; – Use data analysis tools to monitor and analyse game performance, player feedback and player behaviour data; – Continuously develop optimized game versions with new settings, playing methods, contents and functions.
Localization of overseas market	– Develop local language scripts for game programs; – Customize the dialogue between characters in local language and introduce local art design, user interface and popular culture elements.

- *Customer communication and satisfaction management*

  We strictly comply with laws and regulations such as the *Consumer Rights and Interests Protection Law of the PRC*, and formulate and implement the *Operation Procedures on Customer Satisfaction Survey*. We fully understand the demands of players, collect their opinions in a timely manner, and guarantee the legitimate rights and interests of consumers.

  We provide continuous customer service to our players. Player service representatives provides 24/7 online customer service in multiple languages and aim to respond to player queries and complaints, fix technical issues; provide advice on other game-related issues such as gameplay and account maintenance in a standard process. Players can contact a player service representative through a variety of channels, including online customer service, WeChat, e-mail, telephone and in-game inquiry system. We ask our player service representatives to respond to players within a few minutes, and to resolve any special issues within 1–3 days.



  We focus on managing and improving the quality of our services to provide our customers with the best possible service profile and service quality. In 2021, the Group handled a cumulative total of 427,659 user feedback (Note: The feedback data is Number of Total Dialogue) and received no major user complaints that caused significant adverse impact to our business. The relative satisfaction of users with the service reception reached 96.43%.

2.2. Information security and privacy protection

2.2.1. Information security management

We strictly abide by the rules and regulations regarding privacy protection and information security of the countries/regions where we operate, such as *Cybersecurity Law of the PRC*, the *Information Security and Access Management Policy*, etc. Meanwhile, we formulae internal *Information Security Management Policy* to enhance the protection of information safety and user privacy, covering security policy system, security management system, security technology system, security risk assessment, and security training.

In order to solidify the information security infrastructure, we have established the Information Security Leading Group as the highest regulatory organ for the Group's information security management to be responsible for reviewing and formulating the Group's development strategy, planning, policy and management system for information security. We have also set up an office under the Leading Group to take charge of day-to-day security management.

We have formulated internal management policies such as the *Regulations on the Information Security for Internal Personnel*. We have also established security and protection measures in varied segments such as data collection, storage, display, processing, use and destruction from the perspective of the life cycle of data. We adopt different control measures based on the level of information sensitivity, including but not limited to access control, SSL encrypted transmission, and sensitive information de-sensitization display, etc. We designate special personnel in charge of data management and protection, and conduct regular internal inspection on data security. We have also strictly managed employees who may be exposed to user information, and established an approval mechanism for significant operations such as data access, internal and external transfer use, de-sensitization and decryption. We attach great importance to data backup, and establish comprehensive systems and process specifications for backup strategy principles, backup process, and backup media and computer room management.

We encrypt the player's personal data stored on cloud servers provided by third-party suppliers, set up cloud and external firewalls for games, and conduct regular security testing. In addition, we require business partners (e.g., third-party payment channels) to protect the confidentiality of data and not to damage, hide or allow unauthorized access to data, and we only share player behaviour data of imported licensed games with third-party game developers.

We attach importance to enhancing security awareness and competence of employees, thereby formulating the *Management Measures for Personnel Safety Awareness Education and Positional Skills Training*. We organize security education and training on a quarterly basis, including information security basics and positional operation procedures. The Group's legal team is responsible for providing training and regulatory updates to directors, senior management and other employees. To strengthen emergency response to security incidents, we have formulated the Emergency Exercise Plan and organized information security incident emergency drills for various departments throughout the Company.

2.2.2. Privacy protection

Privacy protection for players and users has always been the core and initial concern of our work. We strictly abide by the laws and regulations such as the *Data Security Law of the PRC* and *the Personal Information Protection Law of the PRC*, and have formulated the *Privacy Policy* and *the User Agreement of Qingci Games*, which specifies the scope and rules of collection, disclosure, and protection measures toward users' personal information, and enable users to access, correct and delete personal information, so as to protect the privacy of users from infringement.

Protect player privacy	
Informed consent	• We fully notify players on how to collect and use player data: We require players to read the data privacy policy applicable to their respective regions and complete the consent form before registering and playing the game
Security guarantee	• We encrypt player data stored in the system and set up cloud and external firewalls for games
	• We customize access permissions based on employee qualifications and department functions, and only authorized employees can access player data within a limited period of time
	• De-identification of player behaviour data (e.g. records of playing games and purchasing virtual props in games) is used for internal analysis
	• We have entered into confidentiality agreement with both partners and employees, and if either side or both fails to fulfil the information protection obligation, we will terminate the partnership or employment and hold the right of pursuing legal responsibility in extreme cases

2.3. Protection of intellectual property rights

We put in place policies that strictly abide by the *Copyright Law of the PRC*, the *Trademark Law of the PRC*, the *Patent Law of the PRC*, and the *Measures for the Administration of Software Products of the PRC* and other laws and regulations. We establish the Group's intellectual property management paradigm and continue to standardise and deepen our intellectual property protection efforts.

The Group's Legal Department, the responsible entity for intellectual property management, take charge of managing intellectual property rights involved in business activities with internal and external related parties. For this reason, the Legal Department has established a corresponding management scheme and workflow for in-house R&D IP promotion, external IP synergy, trademark, patent and copyright application, etc.

In-house R&D IP

We safeguard the confidentiality of commercial secrecy through measures such as signing the Confidentiality and Intellectual Property Agreement and relevant technical means in the R&D process;

In the phase of finalising, preparing and publicising of projects, the Legal Department conducts time stamp and related intellectual property applications as needed in accordance with the statutory standard process.

External IP

When we interact with external existing IP, we will sign an agreement to add new game characters, new activities, publicity pictures and animations

While improving our own intellectual property protection system, we also leverage the value and influence of our own intellectual property rights, pursue high-quality intellectual property results in the development of high-quality games. We are also concerned about the creation of copyright value in the process of distribution and promotion, and take various measures to encourage our staff to create IP. Our R&D and innovation capabilities and achievements have been recognised by many parties.

Award Recipient	Award	Issuing Institution
Qingci Game	High-tech Enterprise Certificate	Xiamen Science and Technology Bureau, Xiamen Finance Bureau, etc.
Qingci Game	2021 Future "Unicorn" Innovative Enterprise in Digital Economy of Fujian Province	Digital Fujian Province Construction Leading Group Office of Fujian Province
Qingci Game	2021 "Gazelle" Innovative Enterprise in Digital Economy of Fujian Province	Digital Fujian Province Construction Leading Group Office of Fujian Province
Qingci Game	2021 Xiamen Key Software and Information Technology Service Industry Enterprise of the Year	Bureau of Industry and Information Technology of Xiamen
Qingci Game	Dark Horse Award	2021 China Digital Content Industry Capital Summit
Marvellous Snail game	Nomination for Top 10 New Games in 2020 in China	China Audio and Digital Association Game Working Committee
Marvellous Snail game R&D Team	Nomination for "Top 10 Game Development Teams in 2020 in China	China Audio and Digital Association Game Working Committee
Marvellous Snail creative ad "What can I do to save you, my unhappiness"	Creative Innovation Award	Entertainment Marketing 5S Gold Award
Marvellous Snail creative ad "The secret of human happiness"	Word-of-Mouth Communication Power Award	Entertainment Marketing 5S Gold Award

As of 31 December 2021, we owned a total of 76 trademarks, 76 software copyrights, 13 art copyrights, and 5 other copyrights.

We have always upheld a zero-tolerance attitude towards infringement. In 2021, a total of 2,250 infringement cases were settled regarding cracked version, pirated software and plug-ins. Through active communication, litigation as well as other approaches, we stop the infringement from the counterpart in a timely manner and defend the interests of the Group.

2.4. Business ethics

Business ethics compliance building is always our work priority. We strictly comply with laws and regulations such as the *Anti-Monopoly Law of the PRC*, the *Anti-Unfair Competition Law of the PRC* and the *Interim Provisions on the Prohibition of Commercial Bribery*, and have established internal management measures such as the *Anti-Fraud Policy of Qingci Games* and the *Procurement Policy of Qingci* Games, which clearly stipulate fraudulent acts, reporting requirements and the reporting process. We also emphasise the requirements of "anti-bribery" and "prevention of conflict of interest" in the *Employee Handbook*, which prohibits employees or anyone acting on behalf of the Group from engaging in corrupt practices such as bribery or other misconduct of the same nature through any form. We have established the *Internal Audit Policy*, in which the Internal Audit Department regularly checks the implementation of the provisions of various anti-fraud and other systems, and promptly informs, handles and optimises them to prevent any corruption within the Group.

We lay emphasis on keeping the reporting channels smooth and the related information confidential. In accordance with the *Anti-Fraud Policy of Qingci Games*, the Group regulates, encourages and supports employees and social parties that have direct or indirect economic relations with the Group to report any actual or suspected fraud cases of the Group and its personnel. The Group will strictly protect the safety of informants and ensure that employees or external personnel are not subject to unfair treatment such as dismissal, degradation, suspension, intimidation, harassment, or any other form of retaliation due to reporting through legal channels. We firmly maintain the confidentiality of the information reported. Employees can report anonymously any suspected corruption to the legal team or communicate directly with senior and middle management. In 2021, the Group did not receive any reports on ethical issues.

We require employees to comply with the *Employee Handbook* and the Code of Business Conduct and Ethics, which set out internal rules and guidelines on best business practices, professional ethics, fraud prevention mechanisms, negligence and corruption. We also provide regular in-service compliance training to management and employees to maintain a healthy enterprise culture.

2.5. Supply chain management

Based on the concept of whole value chain management, we integrate procurement and supplier management into risk identification and prevention, standardize the management of procurement process, and propose requirements for the suppliers' business ethics and sustainable development performance. Our suppliers include third-party distribution platform suppliers, payment channel suppliers, game developers from which we introduce our own licensed games, other related game service providers, third-party advertising and marketing service providers, and server suppliers.

We have formulated the *Procurement Management Policy and Work Processes of Qingci Games*, which establishes a comprehensive standardized process from procurement planning, purchase review, purchase application, finding supplier, supplier selection, purchase negotiation, delivery acceptance, and surplus goods in warehouse, to fully safeguard the scientificity and effectiveness of procurement management. In selecting and hiring suppliers, we evaluate a number of aspects such as business status, business capability, quotation management level and quality, and select suppliers with good social and environmental performance; in addition, we pay special attention to the performance of suppliers in terms of business ethics and include them in the inspection of suppliers. We evaluate our suppliers' cooperation and deliverables annually, and if the results are unsatisfactory, we will communicate with them to correct and improve them, and monitor their progress.

As of the end of the reporting period, we had 859 domestic suppliers and 84 overseas suppliers.

3. EMPLOYEE RIGHTS

3.1. Employment of talents

The Group strictly adheres to the relevant laws and regulations, including but not limited to the *Labour Law of the PRC*, the *Labour Contract Law of the PRC*, and correspondingly compile the *Employee Handbook* to protect the interests of employees effectively.

- ### Recruitment and dismissal

  The Group strictly regulates recruitment and dismissal and other relevant procedures. Each employee is required to sign a labour contract when employed, which clearly defines the rights, responsibilities and obligations of both the employee and the employer (including salaries, working hours, benefits and holidays). All employees have the right to terminate their employment with the Group. The conclusion, modification, dissolution and termination of labour contracts should be strictly complied with the relevant laws and regulations. The Group has formulated clear dismissal criteria and procedures to ensure that employees are protected from arbitrary dismissal, protecting the interests of employees effectively.

- ### Working hours and holidays

  The Company strictly complies with the *Labour Law of the PRC* and the *Contract Law of the PRC*, implement the standard working hours system and the comprehensive working hours system, and safeguard the rest time of employees. We focus on the long-term growth of both our employees and the Group, encourage employees to allocate time rationally and to invest time in the growth of their knowledge and abilities. Employees must fill in the overtime application form and obtain the approval of their supervisor. Employees of the Group are entitled to national statutory holidays, statutory annual leave, personal leave, sick leave, wedding leave, maternity leave, bereavement leave, parental leave, etc., and extend the relevant holidays as appropriate to enhance employee happiness.

- ### Equality, diversity and anti-discrimination

  The Group is committed to establishing an equal and diversified workplace. We provide equal opportunities for everyone in terms of recruitment, employment, training, promotion, remuneration and benefits, and firmly eliminate gender, race, ethnicity, colour, age, nationality, religious belief, physical disability, marital status or other discrimination arising from legally protected characteristics; and adopt a “zero tolerance” attitude towards any forms of harassment, abuse and coercion in the workplace and any external work-related environment. As a gaming company, we are committed to breaking the industry’s bias and attach importance to the introduction and training of female talents.

- ### Prohibition of child labour and forced labour

We comply with the *Labour Law of the PRC*, the *Provisions on the Prohibition of Child Labour* and other laws and regulations, requiring employees to provide relevant identification documents when they join the Group to ensure that child labour will not be employed. All employees of the Group comply with the minimum working age requirements stipulated in national laws and regulations. Meanwhile, we respect employees' working willingness and prohibit forced labour.

- ### Talent distribution

As of the end of the reporting period, the Group had 432 full-time employees. The number and turnover rate of employees by gender, age, employment type and geographical area are as follows:

	Number of employees	Employee turnover rate [1]
Employee profile		
Total employees	432	29%
By gender		
Male	326	28%
Female	106	31%
By age		
Under 30	304	36%
Above 30	128	13%
By employment type		
Full time	432	/
Part time	0	/
By region		
China (Mainland China, Hong Kong, Macau and Taiwan region)	423	29%
Overseas	9	0%

[1] *Turnover rate of each category = number of employees leaving in this category during the reporting period/total number of employees in this category at the end of the reporting period * 100%*

3.2. Talent development

- ### Promotion system

The Group has formulated corresponding job ranking standards and corresponding remuneration standards according to the professional attributes and industry conditions of different departments, and uniformly adjusts the ranks of employees who meet the promotion conditions every year. Meanwhile, in order to stimulate employee performance, employees can be promoted irregularly based on their normal performance and completion level, as determined by the personnel department and department heads.

- ### Employee training

We pay active attention to the personal growth of our employees and provide training and development opportunities for all staff to help them achieve their maximum potential at work.

New employee training

We regularly organize training courses for new employees to help them understand the relevant policy of the Company, answer questions and doubts for new employees and help them integrate into the Company as soon as possible. The training covers company history and industry introduction, system training and interactive games. At the end of the training, new employees are invited to fill in the training feedback, which has helped the Company better organize the new employee training program.

During the reporting period, the average training hours of the Group's employees are 2.55 hours. The percentage of trained employees and the average training hours by gender and function are as follows:

	Proportion of employees trained (%)	Average training hours of employees (hours)
By gender		
Male	71%	2.54
Female	29%	2.57
By function		
R&D	43%	2.61
Operation	44%	2.48
General and Admin	13%	2.62

3.3. Care for employees

- ### Remuneration and benefits

We have established a fair and reasonable remuneration system with competitiveness in the market to ensure that employees receive matching salaries. Employee remuneration is composed of basic salary, post allowance, performance bonus and year-end bonus. In addition to helping employees to pay social security benefits such as pension, medical, maternity, work injury, unemployment insurance and housing fund, we also prepare additional subsidies such as wedding benefits and maternity benefits for employees. We regularly evaluate the performance of employees and increase salary for outstanding employees based on the Group's operating status, labour market and other factors.

- ### Employee communication

We have established a comprehensive communication mechanism, complaint and grievance mechanism, as well as a satisfaction survey and feedback mechanism, with the commitment to improving staff engagement and enhancing their sense of belonging. During the reporting period, we launched satisfaction survey, encouraging our employees to express their opinions on the work content and working environment through the questionnaire. Employees generally scored high satisfaction ratings in the questionnaires and we have also implemented improvement measures based on the feedback from employees.

- Care for employees

Every year, we organize a variety of activities or prepare welfare gifts depending on traditional festivals, important international festivals, or commemorative events of the Company to express the Company's care and concern for our employees and sincere wishes.

Celebration of festivals

Prior to the Mid-Autumn Festival, we prepare for the Mid-Autumn moon cake activity, and gifts for all employees for more than a month, and organize moon cake competition games among employees to produce the final king of kings.

We prepare Christmas gift bags packed in a sophisticated gift box, which are placed at the door of the office on Christmas Day, and distribute surprise gifts to employees when they are in office.

Sweet gifts

On the theme of caring for women, we prepare bags of shower gel and body lotion for female employees, and make holiday cards, "Girls Brave the Winds and Waves", on the Women's Day, to express our support for female employees.

Anniversary celebration

The anniversary celebration of "Snail Game" is mainly based on an exquisite afternoon tea, with surprise sessions such as "Speak to You with a Message", and photo-memorial for various departments, celebrating the Snail's birthday with all staff.

3.4. Health and safety

The Group complies with the *Production Safety Law of the PRC* and *Fire Protection Law of the PRC*, and other laws and regulations relating to occupational health and safety and fire safety in the workplace. We have equipped fire alarm system and automatic fire extinguishing system in office areas. The Central Control/Fire Control Office has 24-hour staff on duty. Security personnel inspect the fire service facilities according to the monthly plan. Security inspectors on 24-hour duty conduct comprehensive safety inspection of office areas and report the abnormalities for dispose in a timely manner. The Group conducts fire drills regularly to enhance the self-protection awareness of its employees. During the reporting period, we invited the local Fire Brigade to organize firefighting lectures for some of our staff and organized all staff to participate in fire drills.

During the reporting period, the Group recorded no work-related injury, and no work-related fatality in the past three years.

In addition to the basic social insurances and housing fund, we provide supplementary commercial medical insurance for new employees and provide comprehensive health examination to employees on an annual basis. Since the outbreak of the epidemic in 2020, we have been paying constant attention to the physical and mental health of employees during the epidemic, monitoring the safety of employees in real time, implementing a discretionary isolation system, and effectively implementing the epidemic prevention and the safety protection of employees.

4. GREEN OPERATION

We strictly abide by laws and regulations such as the *Environmental Protection Law of the PRC*, actively respond to the national policies on energy-saving and emission reduction, adhere to the green development concept and low carbon strategy, and are committed to building an environment friendly enterprise. We take practical action to fulfil our commitment to low-carbon operation.

Based on the nature of our business, our impact on the environment mainly includes carbon emissions from energy consumption in the office areas, and small amounts of office and household waste and domestic wastewater. We are not involved in any use of packaging materials of finished products or non-renewable energy, forest resources, and do not have any significant impacts on biodiversity. Therefore, KPI A2.5 Total packaging material used for finished products and A3 Environment and Natural Resources required in ESG Guide are not disclosed in the Report.

We outsource third-party manufacturers and logistics service providers to perform certain activities carried out offline, such as manufacturing and delivery of game-related goods. We promote green office, standardize waste management, and plan to strengthen the audit and empowerment of suppliers' environment responsibility (e.g. data suppliers, suppliers of peripheral products) in the future.

In order to clearly assess our progress, we have formulated the following environmental goals with 2021 as the base year in consideration of the Group's development strategy and domestic and foreign policy formulation, and will promote the achievement of these goals through comprehensive environmental management.

By 2030, we are committed to achieve:

5%
reduction in greenhouse gas emissions

5%
reduction in total power consumption

5%
reduction in total water consumption

5%
reduction in non-hazardous wastes emission

4.1. Energy conservation and emission reduction

4.1.1. Green office

The Group's daily office operations aim to conserve energy. We promote green office, actively promote publicizing the concept of sustainable development for employees, create a good atmosphere of energy conservation, enhance employees' awareness of resource conservation, and respond actively to the call for green office to help save energy and reduce emissions.

Energy saving measures in office area

Special personnel are arranged to inspect the waste of resources irregularly, for example, whether electrical power such as electronic equipment, lights and air conditioning are switched off or not

Reminders such as "Saving Power" are put up to the air conditioning and light switches

Slogans such as "Less elevators, more climbing" are affixed next to the elevator

Summer air conditioning refrigeration is limited at 26 degrees and above

Our energy use and main sources of greenhouse gas emissions are the purchased electricity and vehicle fuel in the operation of Xiamen and Chengdu offices. During the reporting period, the Group's energy consumption and greenhouse gas emissions are as follows:

Energy use	2021
Gasoline (MWh)	108.14
Total direct energy consumption (MWh)	108.14
Purchased electricity (MWh)	512.80
Total indirect energy consumption (MWh)	512.80
Total energy consumption (MWh)	620.94
Energy consumption intensity (MWh/person)	1.50

Note: energy consumption is the direct energy consumption caused by the use of automobile fuel and the indirect energy consumption caused by purchased electricity, which is presented in megawatt hours (thousands of KWH). The calculation is based on default value of fossil fuel in the Guide of Accounting and Report of Greenhouse Gas Emissions for Public Construction Operation Enterprises (Trial Version) released by the National Development and Reform Commission (NDRC).

Greenhouse gas emissions	2021
Scope 1: direct greenhouse gas emissions (tonnes)	26.44
Scope 2: Energy indirect greenhouse gas emissions (tonnes)	353.49
Total greenhouse gas emissions (tonnes)	379.93
Greenhouse gas emission intensity (tonnes/person)	0.92

Note:

1. *GHG emissions are mainly direct GHG emissions resulting from the use of motor fuels during operations (Scope 1) and indirect GHG emissions from purchased electricity (Scope 2). GHG emissions are presented in carbon dioxide equivalents. GHG emissions are calculated with reference to the Guide of Accounting and Report of Greenhouse Gas Emissions for Public Construction Operation Enterprises (Trial Version) released by the NDRC and the Average CO_2 Emission Factors for Regional Power Grids in China in 2011 and 2012.*

4.1.2. Response to climate change

The Group continues to focus on the impacts of climate change tendency and changes in domestic and foreign laws and regulations on our business operations. We actively identify climate change risks and relevant opportunities, and formulated countermeasures for the identified risks.

Risk categories	Potential impact	Risk response
Entity risks	• Headquartered in Xiamen, Fujian, the Group is vulnerable to typhoons, rainstorms and high temperatures in the summer. Frequent extreme weather events caused by global warming will potentially impact employee commuting safety, physical security of owned assets and leased servers, power load for commercial office use, power and water supply stability, and business continuity • As access to game by our major users rely on the complete Internet infrastructure of various locations, the potential damage to the Internet infrastructure caused by extreme weather increases business instability	• Establish a disaster backup and recovery system for office buildings and self-owned/leased servers; formulate the *Information Security Incident Contingency Plan* and organize emergency drills • Back up key data and purchase cloud services • Purchase power generators are available for demand • Continuously reduce the electricity and water consumption for office operation, and improve employees' awareness of energy conservation, and implement green office project

Risk categories	Potential impact	Risk response
Transition risks	• With the introduction of a series of policies to achieve peak carbon dioxide emissions and carbon neutrality in China, reporting obligations on emissions and emission ranges are more stringent, greenhouse gas emission costs increase, and regulation of the Group's green operations is strengthened • Increasing concerns of the Group's green operation from stakeholders, including users and investors	• Improve continuously in the management of energy use and calculate the carbon emissions accurately • Increase the Group's share of renewable energy use, such as purchase of green power • Explore the green properties of suppliers and empower suppliers with awareness and capability of green production • Communicate and publicize actively with the outside world, join relevant industry associations to promote industrial cooperation and enhance the enterprise reputation

4.2. Water resource management

We value the use of natural resources and carry out water-saving activities to reduce water waste: Posting slogans of water conservation in tea rooms, toilets, sinks, etc.; The property team regularly inspects the equipment for water dripping and timely maintains to prevent water wastage.

The Group's water use is entirely comprised of municipal water, consequently there is no problem in sourcing water. In 2021, the water consumption of the Group is as follows:

Water consumption	2021
Total water-consumption (tonnes)	**3,911.20**
Water consumption intensity (tonnes/person)	**9.45**

4.3. Emissions management

We implement the waste classification system in office areas, and place the four types of "dry waste", "wet waste", "recyclable waste" and "hazardous waste" bins. The domestic garbage is centrally classified and managed, and the cleaning staff of the property team are assigned to the designated drop-off points in the park for disposal.

In view of the high wear and tear of electronic equipment, the Group hand over all end-of-life electronic equipment and some equipment with secondary use value to suppliers with recycling qualifications for disposal in the daily operation and office activities, so as to achieve recycling of resources while reducing the emission of carbon dioxide and other pollutants in the waste disposal process.

We discharge only domestic wastewater, which is treated in accordance with the *Law of the PRC on the Prevention and Control of Water Pollution* through sewage pipes to treatment plants in the corresponding areas. The main waste generated is domestic garbage from office premises. Our emissions generated in 2021 are as follows:

Emission category	2021
Volume of non-hazardous waste (tonnes)	**101.35**
Intensity of non-hazardous waste (tonne/person)	**0.24**
Volume of Wastewater (tonnes)	**3,128.96**

Notes:

1. *The hazardous waste generated by the Group includes a small amount of toner cartridges and waste ink cartridges, which are collected and recycled by qualified recyclers and have a relatively negligible impact on the environment. Therefore, KPI A1.3 (the total amount and intensity of hazardous waste generated) is not disclosed in the ESG report.*

2. *Due to the nature of our operations, the Group does not generate any exhaust air emissions; all wastewater generated is domestic wastewater, which is all discharged into the municipal pipe network.*

5. PUBLIC WELFARE

Adhering to our corporate responsibility philosophy of "gratitude for the source of benefit and reward for the community", we have continuously focused on and assisted social welfare programs in society and have insisted on the social responsibility that enterprises should fulfil. We plan and participate in various online and offline charity activities, which covering important social issues in China, including care for children, assistance for people's livelihood, and inheritance of Chinese civilization.

Awards	Issuing Institution
2021 Caring Medal for Charity Partner of the year	Beijing Angelmom Foundation
Corporate Social Responsibility Excellence Reward	Beijing Children's Tumour Foundation

• Public Donations

Caring for children

In 2021, we supported many schools and institutions, including Huangbaichang Primary School in Lanping County, Nujiang Prefecture, Bingzhongluo Central School in Nujiang Prefecture, Dulongjiang Central School in Nujiang Prefecture, Zhihai Village Primary School in Guinan County, Qinghai, Xinjie Hui Township Primary School in Guide County, Qinghai, Jiagenba Area Boarding School in Kangding City, Ganzi Prefecture, Sichuan, and the construction of community care classes in Cengong, Guizhou, to help children grow.

Certificate of donation to Guizhou Cenggong County

Donation to Xining School

The Charity Donation Ceremony of Nujiang School

Assistance for people's livelihoods

Including donation assistance for flood in Henan, covid outbreaks in Xiamen, and to several foundation disease project along 2021.

Donate food supplies to Henan Province facing severe flooding crisis in July 2021

Donate alcohol materials to Hospitals in Xiamen to help fight against the covid

- ## Positive Energy of Games

Foundation cooperation

"Smiling Mother" operation

In 2021, we launched "Smiling Mother" operation organized by the China Women's Development Foundation for children with harelip and cleft palate of poor families in the Marvellous Snail game and participated the offline opening ceremony.

"Warm Winter" operation

The "Warm Winter" operation is a cooperative project to help children with Leukemia jointly launched by Qingci Games and the Chinese Red Cross Foundation, which intended to relieve the stress of many children affected by Leukemia and their families while providing psychotherapy for the children affected.

The Marvellous Snail called for the "Warm Winter" operation, which used games as a platform for innovating public welfare approach, so that the broad masses of players can reach out to help children affected by Leukemia by games.

Inheriting the Chinese Civilization

Collaborating with museums

We have introduced nine museums of Chinese culture from different geographical areas, which include the Guanghan Sanxingdui Museum, Xiamen Museum, Dunhuang Museum and other museums to teach through games and transmit the culture.

Introduction of cultural symbols

We invited the inheritors of Chengdu Shadow play to the players-meeting of the Marvellous Snail to present the history and heritage of the Shadow play, and to introduce the cultural symbol of the Shadow play into the game.

- ## Employee's participation

We encourage employees to participate in social welfare programs and believe that the employee engagement can develop the pride and sense of responsibility of our employees, also as a result, promote the social reputation of the Company.

Up to now, our employees have been involved in public welfare projects such as donating cold weather supplies, school supplies and sports goods to schools in mountainous areas around the world, donating relief supplies such as alcohol, tents and food to areas with severe disasters, and participating in farming activities to sell goods for poor mountain farmers. In 2021, the Group's cumulative volunteer service period exceeded 3,000 hours.

6. ESG REPORTING GUIDE

KPI	Description	Reference
A1	**Emissions:** General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. *Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.* *Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.* *Hazardous waste are those defined by national regulations.*	4.1 Energy conservation and emission reduction 4.3 Emissions management
KPIA1.1	The types of emissions and respective emissions data.	4.3 Emissions management
KPIA1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity.	4.1 Energy conservation and emission reduction
KPIA1.3	Total hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not Applicable
KPIA1.4	Total non-hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.3 Emissions management
KPIA1.5	Description of emissions target(s) set and steps taken to achieve them.	4. Green Operation
KPIA1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	4. Green Operation 4.3 Emissions management

KPI	Description	Reference
A2	**Use of Resource:** General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. *Note: resources can be used in production, in storage, transportation, in buildings, electronic equipment, etc.*	4. Green Operation
KPIA2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	4.1 Energy conservation and emission reduction
KPIA2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	4.2 Water resource management
KPIA2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	4. Green Operation 4.1 Energy conservation and emission reduction
KPIA2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	4. Green Operation 4.2 Water resource management
KPIA2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not Applicable
A3	**The Environment and Natural Resources:** General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.	Not Applicable
KPIA3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Not Applicable

KPI	Description	Reference	
A4	**Climate Change:** General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	4.1	Energy conservation and emission reduction
KPIA4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	4.1	Energy conservation and emission reduction
B1	**Employment:** General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3.	Employee Rights
KPIB1.1	Total workforce by gender, employment type (for example, full- or parttime), age group and geographical region.	3.1	Employment of talents
KPIB1.2	Employee turnover rate by gender, age group and geographical region.	3.1	Employment of talents
B2	**Health and Safety:** General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3.4	Health and safety
KPIB2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	3.4	Health and safety

KPI	Description	Reference
KPIB2.2	Lost days due to work injury.	3.4 Health and safety
KPIB2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	3.4 Health and safety
B3	**Development and Training:** General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note: training refers to vocational training, which can include internal and external courses paid by the employer.*	3.2 Talent development
KPIB3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	3.2 Talent development
KPIB3.2	The average training hours completed per employee by gender and employee category.	3.2 Talent development
B4	**Labour Standards:** General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	3.1 Employment of talents
KPIB4.1	Description of measures to review employment practices to avoid child and forced labour.	3.1 Employment of talents
KPIB4.2	Description of steps taken to eliminate such practices when discovered.	3.1 Employment of talents
B5	**Supply Chain Management:** General Disclosure Policies on managing environmental and social risks of the supply chain.	2.5 Supply chain management
KPIB5.1	Number of suppliers by geographical region.	2.5 Supply chain management
KPIB5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	2.5 Supply chain management

KPI	Description	Reference
KPIB5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	2.5 Supply chain management
KPIB5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	2.5 Supply chain management
B6	**Product Responsibility:** General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.1 Product responsibility
KPIB6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	2.1 Product responsibility
KPIB6.2	Number of products and service related complaints received and how they are dealt with.	2.1 Product responsibility
KPIB6.3	Description of practices relating to observing and protecting intellectual property rights.	2.3 Protection of intellectual property rights
KPIB6.4	Description of quality assurance process and recall procedures.	2.1 Product responsibility
KPIB6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	2.2 Information security and privacy protection

<table>
<tr><th>KPI</th><th>Description</th><th>Reference</th></tr>
<tr><td>B7</td><td>Anti-corruption:
General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to bribery, extortion, fraud and money laundering.</td><td>2.4 Business ethics</td></tr>
<tr><td>KPIB7.1</td><td>Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.</td><td>2.4 Business ethics</td></tr>
<tr><td>KPIB7.2</td><td>Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.</td><td>2.4 Business ethics</td></tr>
<tr><td>KPIB7.3</td><td>Description of anti-corruption training provided to directors and staff.</td><td>2.4 Business ethics</td></tr>
<tr><td>B8</td><td>Community Investment:
General Disclosure

Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.</td><td>5. Public Welfare</td></tr>
<tr><td>KPIB8.1</td><td>Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).</td><td>5. Public Welfare</td></tr>
<tr><td>KPIB8.2</td><td>Resources contributed (e.g. money or time) to the focus area.</td><td>5. Public Welfare</td></tr>
</table>

The Board of Directors is pleased to present to the shareholders the corporate governance report for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules and the Company has adopted the CG Code as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date. The Board is of the view that the Company has complied with the applicable code provisions as set out in the CG Code since the Listing Date up to the date of this annual report. The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

BOARD OF DIRECTORS

Responsibilities

The fundamental responsibility of the Board of Directors (the "Board") is to exercise its best judgment and to act in the best interests of the Company and its Shareholders. The Board establishes the Company's purpose, values and strategy, and ensures that these align with the Company's culture. The Board is formally responsible for overseeing all major matters of the Company, including the formulation and approval of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors, monitoring the performance of the senior management team (the "Senior Management") and other significant financial and operational matters.

All Directors at all times lead by example and carry out duties in good faith and with integrity, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders. They promote the desired corporate culture, which will instill and continually reinforce across the Company's values of acting lawfully, ethically and responsibly. The Board conducts a regular evaluation of its performance.

The daily management, administration and operation of the Company are formally delegated to the Senior Management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the Senior Management on the Company's behalf. The Senior Management reports to the Board on a regular basis and communicates with the Board whenever required.

All Directors clearly understand the delegation arrangements in place. The Company will review the delegation arrangements periodically to ensure that they remain appropriate to the Company's needs.

Board Composition

Executive Directors

Mr. Yang Xu *(Chairman of the Board and President)*
Mr. Huang Zhiqiang *(Chief Executive Officer)*
Mr. Liu Siming *(Chief Financial Officer)*
Mr. Zeng Xiangshuo *(Chief Operating Officer)*

Independent Non-executive Directors

Mr. Zhang Longgen
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

There is no financial, business, family or other material/relevant relationship between any members of the Board. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" in this annual report. The division of responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in writing.

In order to take advantage of the skills, experiences and diversity of perspectives of the Directors and in order to ensure that the Directors give sufficient time and attention to the Group's affairs, we request each of the Directors to disclose to the Company, the number and nature of offices held in public companies or organisations and other significant commitments, together with the identity of such public companies or organisations and the time involved in such commitments.

From the Listing Date to December 31, 2021, the Board has at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, with (1) the appointment of at least three independent non-executive Directors who represent at least one-third of the Board and (2) at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has conducted an annual review and considers that all independent non-executive Directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive Director. The Board believes that the balance between the executive Directors and the independent non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the Shareholders and the Group.

As part of the Company's corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, the independent non-executive Directors are clearly identified in all corporate communications containing the names of the Directors. In addition, an up-to-date list of Directors identifying the independent non-executive Directors and the roles and functions of the Directors is maintained on the Company's website and the Stock Exchange's website.

Board Leadership

Our Chairman, Mr. Yang Xu, provides leadership for the Board to work effectively and performs its responsibilities. He is also responsible for drawing up and approving the agenda for Board meetings. Mr. Yang also ensures that all Directors are properly briefed on issues arising at Board meetings, and works with senior management to provide adequate, accurate, clear, complete and reliable information to members of the Board in a timely manner.

The Chairman together with the Board acts in the Company's best interests through encouraging all Directors to make a full and active contribution to the Board's affairs and encouraging Directors with different views to voice their concerns. The Chairman also allows sufficient time for discussion of issues. Lastly, he promotes a culture of openness and debate by facilitating the effective contribution of the independent non-executive Directors.

Appointment and Re-election of Directors

Pursuant to Article 16.19 of the Company's Articles of Association, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their 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 provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Each of the executive Directors has entered into a service contract with the Company, under which he agreed to act as executive Director for an initial term of three years or until the third annual general meeting of the Company since the Listing (whichever is sooner), subject to the Articles of Association and the Listing Rules, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Each of the independent non-executive Directors is appointed for an initial term of three years or until the third annual general meeting of the Company since the Listing (whichever is sooner). Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee. The Company does not grant equity-based remuneration (e.g. share options or grants) with performance-related elements to independent non-executive Directors to avoid bias in their decision-making and compromising their objectivity and independence. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Independent Non-executive Directors

The independent non-executive Directors play a significant role in the Board and the development of the Company's strategy and policies by virtue of their independent judgment and constructive and informed views, which carry significant weight in the Board's decision. The functions of independent non-executive Directors include (i) bringing an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct, (ii) taking the lead where potential conflicts of interests arise, (iii) scrutinising the Company's performance in achieving agreed corporate goals and objectives and (iv) monitoring performance reporting.

Between the Listing Date and December 31, 2021, the Company did not hold any Board meeting or general meeting. On March 24, 2022, a Board meeting was held to consider and approve, among other things, the consolidated financial statements in this annual report. All independent non-executive Directors have attended and participated at the board meeting and given the benefit of their skills, expertise and varied backgrounds and qualification.

Directors' Training and Professional Development

Every newly appointed Director has been given a comprehensive, formal and tailored induction upon their appointment. The Company will continue to arrange and fund continuous professional training to provide the Directors with updates on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates and briefings on the Company's operations, performance, position and prospects. These measures ensure that (i) the Directors have a proper understanding of the Company's operations and business, (ii) the Directors are fully aware of their responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies and (iii) the Directors' contribution to the Board remains informed and relevant.

Before the Listing, the Company organised a training session conducted by the Hong Kong legal advisors of the Company and attended by all the Directors. The training session covered a wide range of relevant topics including Directors' duties and responsibilities, corporate governance and Listing Rules requirement.

The Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Reporting Period.

Records of training received by the Directors for the Reporting Period are summarized as follows:

Directors	Participation in continuous professional development[1]
Executive Directors	
Mr. Yang Xu	✔
Mr. Huang Zhiqiang	✔
Mr. Liu Siming	✔
Mr. Zeng Xiangshuo	✔
Independent Non-executive Directors	
Mr. Zhang Longgen	✔
Professor Lam Sing Kwong Simon	✔
Ms. Fang Weijin	✔

Note:

1. *Attended training/seminar/conference arranged by the Company or other external parties or read legal and regulatory updates and other reference materials relating to, among others, Directors' duties and responsibilities, corporate governance and Listing Rules requirements.*

DIVERSITY

Board Diversity Policy

We have adopted a diversity policy of the Board (the "Board Diversity Policy") which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board.

A summary of the Board Diversity Policy is set out as follows:

Policy Statement	The Company recognizes the benefits of having a diverse Board, and views an appropriate range and balance of talents, skills, experience and diversity of perspectives at the Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage.
Measurable Objectives	Pursuant to the Board Diversity Policy, we seek to achieve diversity of our Board through the consideration of a number of factors when selecting candidates to our Board, including but not limited to professional experience, talent, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. All appointments of the members of the Board should be made on merit. Our Nomination Committee will review and assess the composition of the Board and make recommendations to the Board on the appointment of members of the Board.
Monitoring, Reporting and Review	Our Nomination Committee is responsible for reviewing the diversity of our Board. The Board will review the implementation and effectiveness of the Board Diversity Policy annually, develop and review measurable objectives for implementing the Policy, and monitor the progress on achieving these measurable objectives in order to ensure that the Policy remains effective.
Policy Compliance	Under the current composition of our Board, our Directors have a balanced mix of knowledge and skills, including in management, strategic development, business development, sales and marketing, finance and information science and investments. They obtained degrees in diverse areas such as engineering, computer science and management. Our Directors range from 38 to 63 years old. After due consideration, our Board believes that based on our existing business model and different backgrounds of our Directors, the composition of our Board satisfies our Board Diversity Policy.

Gender Diversity

Gender Diversity at Board Level

We recognize that the gender diversity at the Board level can be improved. In particular, after the appointment of Ms. Fang Weijin as an Independent Non-Executive Director with effect on December 16, 2021, gender diversity is achieved in respect of the Board as it is no longer a single gender board. That said, we will continue to strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommended best practices. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female Senior Management and potential successors to our Board in a few years' time.

The Company plans to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development.

The Company is of the view that this strategy will offer chances for the Board to identify capable female employees to be nominated as a member of the Board in the future with an aim to providing the Board with a pipeline of female candidates to achieve gender diversity in the Board in the long run. The Board currently has one female Director and as such has achieved gender diversity in respect of the Board. The Nomination Committee will use its best endeavors and on suitable basis, identify and recommend female candidates to our Board for its consideration on appointment of a Director as and when appropriate with the goal to maintain at least one female Director in our Board, subject to the Directors (i) being satisfied with the competence and experience of the relevant candidate based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interests of the Company and its Shareholders as a whole when considering the appointment. The Company believes that such merit-based selection process with reference to the Board Diversity Policy and the nature of our business will be in the best interests of the Company and its Shareholders as a whole.

The Board recognises the importance of diversity in the workforce level. The Group employs our staff by talents and respect our staff's personal choices, regardless of gender, age, religion, nationality etc. The gender ratios in the workforce by the end of the year ended December 31, 2021 are as follows:

Overall male to female ratio Male 75.5%; Female 24.5%

BOARD MEETINGS

The Company has adopted the practice of holding Board meetings regularly in person for at least four times a year at approximately quarterly intervals, with active participation of the majority of the Directors entitled to be present.

Notice of not less than 14 days is given for all regular Board meetings to provide all Directors with the opportunity to attend the meeting and include matters in the agenda. For other Board meetings, reasonable notice is given. The agenda and accompanying board papers are despatched in full to the Directors or committee members at least three days before meetings to ensure that they have sufficient time to review these documents. To enable the Directors to make informed decisions, the management will supply the Board and its committees with adequate, complete and reliable information in a timely manner and the Directors can access board papers and related materials of appropriate form and quality.

If any Director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. When a Director or a committee member is unable to attend a meeting, he is advised of the matters to be discussed and given an opportunity to make his views known to the Chairman prior to the meeting.

If a substantial Shareholder or a Director has a conflict of interest in a matter for consideration which is determined to be material by the Board, the Board should deal with the matter with a physical meeting rather than a written resolution. If an independent non-executive Director and his close associates have no material interest in the transaction, he should attend that Board meeting.

Minutes of the Board meetings and committee meetings record in detail the matters considered by the Board and the committees and the decisions reached, including any concerns and dissents expressed by the Directors. Draft and final versions of the minutes of the meetings are sent to the Directors for comments and records respectively within a reasonable time after each meeting. The final minutes with the relevant board papers and related materials are kept by the joint company secretaries and are available for review and inspection by the Directors at any time.

The Directors have full and timely access to all the information of the Company and the advice and services of the joint company secretaries, with a view to ensuring that Board procedures and all applicable laws, rules and regulations are followed. The Directors can seek independent professional advice in performing their duties at the Company's expense. The Board has resolved to provide separate independent professional advice to the Directors to assist them in performing their duties to the Company. Individual Directors are encouraged to access and consult with the Company's Senior Management independently and separately from the Board, but will not rely purely on information provided voluntarily by the Senior Management and will make further enquiries when necessary.

The Board has established mechanisms to ensure that independent views and input are available to the Board (i) the Chairman will at least hold one meeting with independent non-executive Directors and without the presence of other Directors; and (ii) the independent non-executive Directors participate in board committees (including Audit Committee, Nomination Committee and Remuneration Committee) meetings to bring independent views, advice and judgment on important issues relating to the Company's strategy, policy, financial performance.

Since the Company was listed on December 16, 2021, which is less than one month away from December 31, 2021, the Board had no matters that needed to be discussed from the Listing Date to December 31, 2021, and the Company did not hold any Board meetings during the said period. For the same reason, the Chairman did not hold a meeting with the independent non-executive Directors without the presence of other Directors from the Listing Date to December 31, 2021. The Company will comply with code provision C.5.1 of the CG Code to hold at least four Board meetings each year, about once every quarter, and code provision C.2.7 of the CG Code for the Chairman to hold at least one meeting with the independent non-executive Directors without the presence of other Directors each year.

On March 24, 2022, a Board meeting was held, to consider and approve, among other things, the consolidated financial statements in this annual report.

BOARD COMMITTEES

To better serve the long-term interests of our stakeholders, the Board delegates certain matters requiring particular time, attention and expertise to its committees. The Board has determined that these matters are better dealt with by the committees as they require independent oversight and specialist input. As such, the Board has established three committees to assist the Board, namely Audit Committee, Remuneration Committee and Nomination Committee. Each of the Committees has its terms of reference which clearly specifies its powers and authorities and is responsible for overseeing particular aspects of the Group's affairs. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the Company's website and the Stock Exchange's website.

Each of the Committees will report to the Board on a regular basis, and the chairman of the Committee will report the findings and recommendations to the Board at the next meeting of the Board following each meeting of the Committee, unless there are legal or regulatory restrictions on its ability to do so.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consist of the three independent non-executive Directors, namely Mr. Zhang Longgen (Chairman), Professor Lam Sing Kwong Simon and Ms. Fang Weijin. Mr. Zhang Longgen possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing auditor, PricewaterhouseCoopers. The joint company secretaries are responsible for keeping the full minutes of the Audit Committee meetings. The draft and final versions of minutes of the meetings are sent to all Committee members for their comment and records within a reasonable time after the meeting.

The Audit Committee has access to independent professional advice and is provided with sufficient resources to perform its duties.

The main duties of the Audit Committee include the following:

a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discussing with the auditor before the audit commences, the nature and scope of the audit and reporting obligations;

c) developing and implementing policy on engaging an external auditor to supply non-audit services, and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;

d) monitoring the integrity of the Company's financial statements, Annual Reports, accounts, interim reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee focuses particularly on:

    1) any changes in accounting policies and practices;

    2) major judgmental areas;

    3) adequacy of disclosure, consistency within the financial statements and with prior disclosures;

    4) significant adjustments resulting from the audit;

    5) the going concern assumptions and any qualifications;

6) compliance with accounting standards; and

7) compliance with the Listing Rules and legal requirements in relation to financial reporting;

e) Regarding (d) above:

1) liaising with the Board, the Senior Management and the person appointed as the Company's qualified accountant and meeting with the Company's auditors at least two times a year; and

2) considering any significant or unusual items that are, or may need to be, reflected in the report and accounts, giving due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

f) reviewing the Company's financial controls and reviewing the Company's risk management and internal control systems;

g) discussing the risk management and internal control system with the management to ensure that the management has performed its duty in implementing an effective system, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

h) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;

i) ensuring coordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;

j) reviewing the financial and accounting policies and practices of the Company and its subsidiaries. Special meetings may be convened at the discretion of the Chairman or at the request of the Senior Management to review significant control or financial issues;

k) reviewing the external auditor's management letter, any material queries raised by the auditor to the management about accounting records, financial accounts or systems of control and the management's response;

l) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;

m) reviewing management's reports on the effectiveness of systems for internal control and financial reporting;

n) acting as the key representative body for overseeing the Company's relations with the external auditor;

o) making recommendations to the Board on the resolution of any disagreements between the management and the external auditor regarding financial reporting;

p) discussing problems and reservations arising from the interim review and final audits, and any matters the external auditor may wish to discuss (in the absence of the management where necessary);

q) reporting to the Board for decisions or suggestions made by the Audit Committee, unless there is any circumstance that such report is limited by law or regulatory restrictions;

r) ensuring that the arrangements made by the Company enable the employees to raise concerns in confidence about possible improprieties in financial reporting, internal control or other matters, ensuring that proper arrangements are in place for the Company for fair and independent investigation of these matters and for appropriate follow-up action;

s) reporting to the Board on the above matters;

t) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

u) reviewing and monitoring the training and continuous professional development of Directors and the Senior Management;

v) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

w) developing, reviewing and monitoring the Company's code of conduct and compliance manual, if any, applicable to employees and the Directors;

x) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report in the Annual Report; and

y) considering other topics, as defined by the Board from time to time.

As the Company was listed on the Stock Exchange on December 16, 2021, no Audit Committee meeting was held during the Reporting Period. During the period from the Listing Date and up to the date of this annual report, the Audit Committee has held one meeting, in which the Audit Committee has performed, among other things, the following tasks:

- reviewed the audited annual results and annual report for the year ended December 31, 2021;
- the Company's continuing connected transactions;
- in relation to the external auditor, reviewed their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;

- made recommendations to the Board for the re-appointment of the external auditor; and
- reviewed the risk management and internal control systems and the effectiveness of the Company's internal audit function.

According to code provision D.3.3(e)(i) of the CG Code, the Audit Committee must meet with the Company's auditors at least twice a year. The Audit Committee did not hold any meetings during the year ended December 31, 2021 since the Shares of the Company were listed on December 16, 2021, which is less than one month away from December 31, 2021. In accordance with the terms of reference of the Audit Committee, it is expected that, going forward, the Audit Committee will schedule to meet at least twice per year and meet with the Company's external auditors regarding the review of the Company's financial report and accounts at least twice a year.

The Auditor was invited to attend the Audit Committee meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. The Audit Committee also met with the Auditor without the presence of management. The Audit Committee is satisfied with the independence and engagement of the Auditor. As such, the Audit Committee has recommended the re-appointment of the Auditor.

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee consists of two independent non-executive Directors, namely Professor Lam Sing Kwong Simon (Chairman) and Mr. Zhang Longgen, and one executive Director, namely Mr. Yang Xu.

The Remuneration Committee consults the Chairman and the Chief Executive Officer about its remuneration proposals for other executive Directors. The Remuneration Committee has access to independent professional advice and is provided with sufficient resources to perform its duties.

The main duties of the Remuneration Committee include the following:

a) making recommendations to the Board on the Company's policy and structure for all Directors' and the Senior Management's remuneration and on the establishment of a formal and transparent procedure for developing the remuneration policy;

b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

c) making recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management members, including benefits in kind, pension rights and compensation payments, including any compensation payable for the loss or termination of their office or appointment;

d) making recommendations to the Board on the remuneration of non-executive Directors;

e) considering salaries paid by comparable companies, time commitments, responsibilities and employment conditions elsewhere in the Group;

f) reviewing and approving the compensation payable to executive Directors and the Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

g) reviewing and approving compensation arrangements relating to the dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

h) ensuring that no Director or any of his associates (as defined in the Listing Rules) is involved in determining his own remuneration;

i) advising the Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules;

j) reviewing the basis of and, if the Committee so decides, approving any significant discretionary payment to an employee who is neither a Director nor a member of the Senior Management but who is related to any Director or any member of Senior Management;

k) making recommendations to the Board regarding the content of the Board's annual report to Shareholders on Directors' and Senior Management's remuneration (including the Company's policy on such persons' remuneration, details of individual remuneration and other terms and conditions); and

l) considering other matters that are related to remuneration paid or payable by the Group, as defined or assigned by the Board or imposed by the Listing Rules or applicable laws from time to time.

As the Company was listed on the Stock Exchange on December 16, 2021, no Remuneration Committee meeting was held during the Reporting Period. During the period from the Listing Date and up to the date of this annual report, the Remuneration Committee has held one meeting, in which the Remuneration Committee has performed, among other things, the following tasks:

- reviewed and make recommendations to the remuneration policy and structure of Directors and senior management;

- assessed performance of executive Directors;

- reviewed and made recommendations to the Board on the remuneration packages and policy of Independent non-executive Directors; and

- assessed performance of certain Directors and senior management and reviewed and made recommendations to the Board on the remuneration packages for certain Directors and senior management.

The Remuneration Committee did not hold any meetings during the year ended December 31, 2021 since the Shares of the Company were listed on December 16, 2021, which is less than one month away from December 31, 2021. Going forward, the Remuneration Committee will hold at least one meeting each year to perform its duties and comply with its terms of reference in all aspects.

Remuneration Policy

The Directors' emolument package comprise Director's fee, basic salaries and allowance, bonuses, share options and others. The following factors considered when determining Directors' remuneration package:

- Business needs and company development;
- Responsibilities of the Directors and individual contribution to the Group;
- Changes in markets, e.g. attract and retain key talent by being market competitive; and
- Incentivize sustainable long-term performance and long-term alignment with shareholders' interests.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of one executive Director, namely Mr. Yang Xu (Chairman), and two independent non-executive Directors, namely Professor Lam Sing Kwong Simon and Ms. Fang Weijin.

The Nomination Committee has access to independent professional advice at the Company's expense and is provided with sufficient resources to perform its responsibilities.

The main duties of the Nomination Committee include the following:

a) proposing a set of personal attributes to the Board, the adoption of which shall form the basis of evaluation of candidates for directorship;

b) proposing a set of procedures for processing nominations of candidates for the Board's approval;

c) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and recommending any proposed changes to the Board to complement the Company's corporate strategy;

d) developing and maintaining the nomination policy for the directorship of the Company (the "Nomination Policy"), including the nomination procedures as well as the procedures and criteria for the Committee to identify, select and recommend candidates for directorship during the year;

e) reviewing the nomination policy regularly and disclosing such policy and the progress towards the goals of the policy as set out in the Company's Corporate Governance Reports, reviewing and discussing on any necessary amendments, and making recommendations to the Board for approval;

f) developing and maintaining the Board Diversity Policy, monitoring the implementation of the Board Diversity Policy, and regularly reviewing and disclosing such policy or its highlights in the Company's Corporate Governance Reports, reviewing and discussing any necessary amendments, and making recommendations with respect to them to the Board for approval;

g) identifying individuals suitably qualified to become Board members, considering factors including but not limited to whether the individual may bring different views and perspectives, skills and experience to the Board, and whether Board diversity can be promoted with the individuals' participation;

h) selecting and nominating relevant individuals for directorships or making recommendations thereon to the Board in accordance with the Nomination Policy;

i) assessing the independence of independent non-executive Directors, reviewing the independent non-executive Directors' annual confirmations on their independence and making disclosure of its review results in the Corporate Governance Reports;

j) assessing the adequacy of time that a candidate nominated as a Director of the Company can devote for its directorship, considering factors including the number of other listed companies in which such candidate has a directorship;

k) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer;

l) deciding and making recommendations to the Board as to whether a Director is able to and has adequately carried out his duties as a Director of the Company; in particular, where the subject Director has multiple board representations;

m) regularly reviewing and reporting to the Board the contributions required from and the suitability of Directors and the Senior Management to perform their responsibilities to the Company, and whether they are spending sufficient time performing them, to ensure that they meet the terms of employment and performance objectives;

n) making recommendations to the Board as to the re-appointment or replacement of any Director or member of the Senior Management;

o) where the Board proposes a resolution to elect an individual as a Director at the general meeting, setting out in the circular to Shareholders and in the case of an appointment of an independent non-executive Director, an explanatory statement accompanying the notice of the relevant general meeting:

    1) the process used for identifying the individual and why the Remuneration Committee believes the individual should be elected and the reasons why the Remuneration Committee considers him to be independent;

    2) if the proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the Board;

3) the perspectives, skills and experience that the individual can bring to the Board; and

4) how the individual contributes to diversity of the Board.

As the Company was listed on the Stock Exchange on December 16, 2021, no Nomination Committee meeting was held during the Reporting Period. During the period from the Listing Date and up to the date of this annual report, the Nomination Committee has held one meeting, in which the Nomination Committee has performed, among other things, the following tasks:

- reviewed the structure, size and composition of the Board;
- made recommendations to the Board on the appointment and re-appointment of Directors; and
- assessed the independence of the independent non-executive Directors.

The Nomination Committee did not hold any meetings during the year ended December 31, 2021 since the Shares of the Company were listed on December 16, 2021, which is less than one month away from December 31, 2021. Going forward, the Nomination Committee will hold at least one meeting each year to perform its duties and comply with its terms of reference in all aspects.

NOMINATION POLICY FOR DIRECTORSHIP

Pursuant to Article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Pursuant to Article 16.3 of the Articles of Association, the Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall not be less than two. Subject to the provisions of the Articles of Association and the Companies Act, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors.

Pursuant to Article 16.6 of the Articles of Association, the Company may by ordinary resolution at any time remove any Director before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead. Any person so elected shall hold office during such time only as the Director in whose place he is elected would have held the same if he had not been removed.

The Board has adopted the Nomination Policy, which aims to set out the approach to enable the Nomination Committee to nominate a Director to the Board. Details of the Policy and the related nomination procedure are set out as follows:

Director Selection Criteria

In the determination of the suitability of a candidate, the Nomination Committee will consider a range of factors, including but not limited to the following selection criteria, before making recommendations to the Board:

- reputation for integrity;
- experience in the entertainment industry and/or business strategy, management, legal and financial aspects;
- ability to assist the Board in effective performance of its responsibilities;
- the perspectives and skills that the proposed candidate is expected to bring to the Board;
- diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- commitment in respect of available time and relevant interest; and
- in the case of selection for Independent Non-Executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee has the discretion to nominate any person as it considers appropriate. The Nomination Committee shall report its findings and make recommendations to the Board on the appointment of appropriate candidate for directorship for decision and succession planning. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

Nomination Procedure by the Nomination Committee

The Company has adopted a nomination procedure for election of Directors. Such policy, devising the criteria and procedures of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors of the Company.

Nomination Committee shall call a meeting and invite nominations of candidates from Board members if any, for consideration by the committee prior to its meeting. Alternatively, such nomination may be approved by the committee by way of written resolutions. For filling a casual vacancy, the committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the committee shall make nominations to the Board for its consideration and recommendation.

The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing Board effectiveness and diversity.

Monitoring, Reporting and Review

The Nomination Committee will report annually on the Board's composition and make appropriate disclosures regarding the Board Diversity Policy in the Corporate Governance Report of the Company's annual reports.

The Board shall consider the recommendations from the Nomination Committee and make a decision as to whether the nominated candidate shall be eligible to be appointed as a director of the Company.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group and presenting a balanced, clear and understandable assessment in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements of the Group on a going concern basis.

The statement of the auditor about its reporting responsibilities on the consolidated financial statements of the Company is set out in the section headed "Independent Auditor's Report" in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Adequate and effective risk management and internal control systems are key to safeguarding the achievement of the Company's strategic objectives. Risk management and internal control systems shall ensure the effective business operation, accuracy and reliability of the financial reporting, as well as the compliance with applicable laws, regulations and policies. The Board acknowledges that it is responsible for ensuring that the Company establishes and maintains sound risk management and internal control systems within the Group, and overseeing them and reviewing their effectiveness on an ongoing basis. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

Risk Management and Internal Control Systems

Our Board (through the Audit Committee) is responsible for establishing the Company's risk management and internal control systems. For the purposes of risk management and internal control, we have adopted various measures and procedures regarding our business operations.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. The Company provides periodic training on these measures and procedures to our employees and regularly monitors their implementation in our game development, publishing and operation processes. Business departments actively cooperate with internal control and internal audit functions, report to the Senior Management on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks. Risk management report, covering identified risks, evaluation and proposed responding measures, is submitted to the Executive Directors periodically to monitor the implementation of our risk management policies across our Group on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

In addition, the Company has set up an internal control framework, which relates to business processes such as procurement, sales, human resources and payroll, game development, marketing, tax, capital, information security and intellectual property rights, financial reporting and disclosure. The risk bank has also been put in place and risk assessment is conducted on a regular basis to ensure the effective operation of risk management and internal control.

Lastly, the Company has established a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, about possible improprieties in any matter related to the Company.

Significant Risks of the Company

Below is a summary of the significant risks of the Company along with the applicable response strategies. The Company's risk profile may change and the list below is not intended to be exhaustive.

1. Financial Risk

We have adopted internal audit policies in connection with our financial risk management. Our audit department is responsible for conducting internal annual auditing, participating in the preparation of our budget plans and overseeing the implementation of our internal controls. We also plan to provide regular training to our audit department staff to ensure that they understand these policies.

2. Information Security Risk

We have implemented internal control procedures to protect the safety of user data and ensure compliance with applicable regulatory requirements. Our information technology team monitors the operating status of our network devices, servers, operating systems and database, and responds to and deals with any issues that may arise in a timely manner. We have also established a company-wide policy on data collection and protection practices, which primarily includes: (i) providing adequate notice to players as to how their data is being collected and used, (ii) encrypting player data stored on our system and setting up cloud and external firewalls for our games, (iii) limiting access of player data to authorized employees, and (iv) making reasonable efforts to prevent loss or leakage of player data.

In addition, we enter into user privacy agreement with our players on data collection and protection, and we did not experience any material information leakage or loss of user data during the four financial years ended December 31, 2021.

3. Fraud Risk

In recent years, fraudulent activities have occurred frequently in the Internet and technology industry and therefore integrity has been an important concern. As the Company continues developing its business, its business scale and complexity increased, and consequently the fraud risk inevitably increased to a certain extent.

The Company, with its belief in the value of integrity, has zero tolerance for fraud, and is determined to fight against any fraudulent activities. The Group monitors fraudulent activities by establishing code of conduct for employees and anti-fraud rules. The anti-fraud team consists of five members and is authorized to execute anti-fraud measures, including overseeing the implementation of the code of conduct for employees and taking disciplinary actions against non-compliance, handling complaints and whistle-blower reports, conducting internal investigations, reporting to the Board, and timely rectifying identified corrupt or fraudulent activities and taking preventative measures to avoid future non-compliance.

The Company has also established policies and systems that promote and support anti-corruption laws and regulations. We require our employees to follow our employee manual and code of business conduct and ethics, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We also carry out regular on-the-job compliance training to our Senior Management and employees to maintain a healthy corporate culture and enhance their compliance perception and responsibility. We also have adopted an Anti-Corruption Policy and Internal Audit Policy to safeguard against any corruption within our Group. Our staff can anonymously report any suspected corrupt incident to our legal team. Our legal team is responsible for investigating the reported incidents and taking appropriate measures.

4. Legal Risk

We have a dedicated in-house legal team responsible for ensuring our mobile game operations' compliance with the relevant rules and regulations. Our legal department examines our contract terms, reviews all relevant licenses, approvals and permits required of us, conduct due diligence into our counterparties, and continuously monitors our compliance status and legal risks. With the assistance of external legal advisors, our Directors also continuously monitor our compliance with relevant laws and regulations.

5. Intellectual Property Risk

To manage IP risks, we review carefully required documentation before the official launch of a game to spot any potential risks. We were not subject to any material IP-related complaints or allegations during the four financial years ended December 31, 2021.

Inside Information

The Company attaches utmost importance to the proper handling and dissemination of inside information.

The Company has in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the Shareholders and stakeholders to assess the latest position of the Group. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

Under the framework, to ensure the confidentiality and the timely disclosure of inside information, all employees are provided with learning materials and guidelines regarding the handling and dissemination of inside information on a yearly basis. IT system controls are implemented to ensure the access to sensitive data is restricted to authorized personnel only. If an employee is aware of any project, transaction, information or situation which he thinks could potentially be inside information, he should contact the joint company secretaries as soon as possible. Legal analysis and consultations with the Directors and Senior Management will be made so as to identify whether any such information constitutes inside information and is required to be disclosed to the public pursuant to the SFO.

Effectiveness of Risk Management and Internal Control

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Group's risk management and internal control system and reporting the results to the Audit Committee. The Audit Committee is responsible for conducting a review of the effectiveness of the Group's risk management and internal control systems, including all material controls (such as financial, operational and compliance controls), at least once every year.

The Audit Committee's process of reviewing the effectiveness of the risk management and internal control systems and resolving material internal control defects comprises of, among other things: (1) meetings with management of business groups, the internal audit department, the internal control department, legal team, and the external auditor (as the case maybe); (2) reviewing the relevant work reports and information of key performance indicators, (3) the Senior Management's self-assessment on internal control and (4) discussing the significant risks with the Senior Management.

The Board has conducted a review of the adequacy and effectiveness of the Group's risk management and internal control systems throughout the year ended December 31, 2021, and considers that they are adequate and effective. The Board has also received a confirmation from the management on the effectiveness of the Group's risk management and internal control systems throughout the year ended December 31, 2021.

In addition, based on the report of the Audit Committee, the Board believes that the Company's accounting, internal audit and financial reporting functions, and ESG performance and reporting have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. The Board also believes that sufficient resources and an adequate budget have been obtained for such functions.

JOINT COMPANY SECRETARIES

Mr. Zhu Chengyin and Ms. So Shuk Yi Betty, a vice president of SWCS Corporate Services Group (Hong Kong) Limited (an external company secretarial service provider) have been appointed as the Company's joint company secretaries. They are responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. Ms. So Shuk Yi Betty was appointed to assist Mr. Zhu Chengyin to discharge his duties as a company secretary of the Company. The primary corporate contact person at the Company is Mr. Zhu Chengyin, the director of capital markets and the joint company secretary of the Company. For the year ended December 31, 2021, Mr. Zhu Chengyin and Ms. So Shuk Yi Betty have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

The Board is responsible for approving the selection, appointment or dismissal of a company secretary. A physical Board meeting instead of a written resolution should be used to dealt with the appointment and dismissal of a company secretary.

DIVIDEND POLICY

The Company does not have any pre-determined dividend payout ratio. The payment and the amount of dividends will be at the discretion of the Board and will also depend on factors such as our results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Cayman Companies Act. Subject to the Cayman Companies Act and the Articles of Association, the Company in general meeting may declare dividends, but shall exceed the amount recommended by the Board. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that effective and on-going communication with the Shareholders and prospective investors is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely, equal, ready and regular disclosure of its corporate information, which enables the Shareholders and investors to make the best informed investment decisions.

The Chairman is responsible for ensuring that appropriate steps are taken to provide effective communication with the Shareholders and that their views are communicated to the Board as a whole. The Company has in place a policy (the "Shareholders' Communication Policy") to promote effective and on-going communication between the Company and the Shareholders and to ensure that the Shareholders' views and concerns are communicated to the Board and appropriately addressed. As part of its regular review, the Board has reviewed the Shareholders' Communication Policy for the year ended December 31, 2021 and is of the view that the Policy is effective and adequately implemented.

General Meetings

The Company encourages Shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, pursuant to Article 12.4 of the Articles of Association, the Company sends notices to Shareholders for annual general meetings at least 21 clear days before the meeting and at least 14 clear days for all other general meetings. The Company's general meetings provide a transparent and open platform for the Company's Shareholders to communicate with the Board and the Senior Management.

The Chairman will attend and invite the chairmen of the Audit, Remuneration and Nomination Committees to attend all annual general meetings. They will be available to answer questions at the annual general meetings. The Company's management also ensures that the external auditor attend all annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

In order to ensure that Shareholders' interests and rights are adequately protected, a separate resolution will be proposed by the chairman for each substantially separate issue at the general meetings. There will be no "bundling" of resolutions unless they are interdependent and linked forming one significant proposal. When resolutions are "bundled", the Company will explain the reasons and material implications in the notice of meeting.

All resolutions will be voted by poll pursuant to the Articles of Association and the Listing Rules. To ensure that the Shareholders are familiar with the detailed procedures for conducting a poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from the Shareholders on the voting procedures will be answered before the poll voting starts. Poll results will be posted on the Company Website and the Stock Exchange's website after each general meeting.

Other Communications

The Company will publish in a timely manner both English and Chinese versions of (i) any corporate communication (as defined in the Listing Rules) of the Company that requires Shareholders' attention or action, and (ii) announcements relating to matters to be disclosed under the Listing Rules (including but not limited to those involving inside information, corporate actions and corporate transactions).

The Company also ensures that the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, maintains the most up-to-date information relating to the Shares at all times so that it can respond effectively to the Shareholders' enquiries.

The Company maintains a website at https://www.qcplay.com/notice.html as a communication platform with the Shareholders and investors, where information on the Company's announcements, financial information and other information are available for public access. Shareholders and investors may send enquiries or requests to the Company, for the attention of the Board, as follows:

Address: 4 Wang Hai Road, Xiamen Software Park II, Xiamen, Fujian Province, China
Postcode: 361008
Email: ir@qcplay.com

The Company continues to enhance communications and relationships with Shareholders and investors. Designated Senior Management members maintain regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from Shareholders and investors are dealt with in an informative and timely manner.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting

Pursuant to Article 12.3 of the Articles of Association, extraordinary general meetings shall be convened on the written requisition of any one or more Shareholders holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the Company's principal office in Hong Kong (or the Company's registered office in the event the Company ceases to have such a principal office), specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). 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 requisitionist(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. 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 requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There is no provision allowing the Shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director (Article 16.4) under the Cayman Islands Companies Laws or the Articles of Association. Shareholders who wish to put forward a resolution may follow the procedures set out in the preceding paragraph to request the Company to convene an extraordinary general meeting for any business specified in such written requisition.

DISCLOSURE OF OTHER INFORMATION

The Company is required to disclose certain information pursuant to the Listing Rules and the CG Code. Set out below is the information which has not been covered above.

Changes in Constitutional Documents

Pursuant to a special resolution of the Shareholders passed on November 18, 2021, the amended and restated Memorandum and Articles of Association of the Company was adopted with effect from December 16, 2021, the Company's date of Listing.

On March 24, 2022, the Board proposed to amend the Memorandum and Articles of Association of the Company to conform with the core shareholder protections standards set out in Appendix 3 of the Listing Rules which became effective on January 1, 2022. The proposed amendments to the Memorandum and Articles of Association are subject to the approval of the Shareholders by way of a special resolution at the annual general meeting of the Company to be held on Monday, June 6, 2022. For further details, please refer to the announcement and circular of the Company dated March 24, 2022 and April 25, 2022, respectively, published on the websites of the Stock Exchange and the Company.

The Articles of Association is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.qcplay.com/notice.html).

Auditor's Remuneration

For the year ended December 31, 2021, the fee paid/payable to the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services is set out as follows:

Type of services provided by the external auditor	**Amount** RMB'000
Assurance service – IPO:	7,946
Assurance service – annual report:	3,200
Non-assurance service:	1,373
Total	12,519

Model Code for Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' dealings in securities of the Company. The Directors have confirmed, following specific enquiries by the Company, compliance with the required standard set out in the Model Code and its code of conduct for the year ended December 31, 2021.

The Company has also established written guidelines for dealings in the Company's securities by employees or directors of the Group who are likely to possess inside information of the Company or the Company's securities (the "Guidelines for Securities Dealings by Relevant Employees") on terms no less exacting than the Model Code. During the year ended December 31, 2021, no incident of non-compliance with the Guidelines for Securities Dealings by Relevant Employees has been noted by the Company.

Directors and Officers Liability Insurance

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the Directors and the Company's officers.

Independent Auditor's Report

To the Shareholders of Qingci Games Inc.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Qingci Games Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 120 to 219, comprise:

- the consolidated statement of financial position as at December 31, 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BASIS FOR OPINION (CONTINUED)

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter identified in our audit is related to revenue recognition on online game operating services – estimates of lifespan of in-game virtual items.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition on online game operating services – estimates of lifespan of in-game virtual items	Our procedures performed in relation to the estimation of lifespan of in-game virtual items included:
Refer to note 2.23 and note 5 to the consolidated financial statements. During the year ended December 31, 2021, the Group generated revenue from its online game operating services amounted to approximately RMB1,051 million, representing approximately 95% of the Group's revenue. The Group recognised revenue from sales of in-game virtual items ratably over the lifespan of in-game virtual items determined by management with reference to the expected playing period of paying players ("Player Relationship Period") when the Group determined that it is obligated to provide on-going services to game players.	We obtained an understanding of management's internal control and assessment process of estimates of lifespan of in-game virtual items and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity, changes and susceptibility to management bias. We evaluated and tested, on a sample basis, key internal controls in respect of the recognition of revenue from sales of in-game virtual items, including management's review and approval of (i) determination of the estimated lifespans of new virtual items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual items based on periodic reassessment on any indications triggering such changes;

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area because the determination of the lifespan of the in-game virtual items with reference to the expected Player Relationship Period is subject to high degree of estimation uncertainty. The inherent risk in relation to the determination of the lifespan of the in-game virtual items with reference to the expected Player Relationship Period is considered significant due to subjectivity of significant assumptions used and significant judgements involved in the relevant determination. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to games profile (including historical players' consumption patterns, churn rates, and games life-cycle), target audience and its appeal to players of different demographics groups, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period.	We evaluated the judgement and estimates made by management in determining the lifespan of in-game virtual items with reference to the expected Player Relationship Periods including nature of virtual items, the games profile, the target audience, marketing strategy, players of different demographics groups of the relevant games with reference to the nature of games, historical operating data, marketing data and practice, and our industry knowledge. We also retrospectively evaluated, on a sample basis, the outcome of prior period assessment of the expected Player Relationship Periods to assess the effectiveness of management's estimation process by comparing the actual users' relationship periods against the original estimation. We and our internal IT specialist, checked, on a sample basis, the data integrity of historical players' consumption patterns and calculation of the churn rates used in determining the Player Relationship Periods. We assessed the adequacy of the disclosures related to estimates of lifespan of in-game virtual items in the context of the applicable financial reporting framework. We also considered whether the judgements made in determinations of estimates of lifespan of in-game virtual items would give rise to indicators of possible management bias. Based on the procedures performed, we considered that the significant judgements and estimates adopted by management in the assessment of lifespan of in-game virtual items are supported by the evidence obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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 ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jack Li.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 24, 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
Revenues	5	**1,105,816**	1,226,920
Cost of revenues	6	**(293,217)**	(284,565)
Gross profit		**812,599**	942,355
Selling and marketing expenses	6	**(304,236)**	(559,215)
Research and development expenses	6	**(91,228)**	(146,108)
General and administrative expenses	6	**(86,886)**	(102,897)
Net impairment losses on financial assets	6	**140**	364
Fair value changes on investments measured at fair value through profit or loss	8	**5,030**	594
Other income	9	**11,085**	11,406
Other losses, net	10	**(9,354)**	(27,071)
Operating profit		**337,150**	119,428
Finance income		**2,046**	795
Finance costs		**(858)**	(103)
Finance income, net	11	**1,188**	692
Fair value changes of convertible redeemable preferred shares	29	**(691,052)**	–
Share of results of investments accounted for using equity method	17	**5,377**	(404)
Losses from financial instruments issued to investors	28	**(53,928)**	(6,400)
(Loss)/profit before income tax		**(401,265)**	113,316
Income tax benefit/(expenses)	12	**32,627**	(9,577)
(Loss)/profit for the year		**(368,638)**	103,739
Other comprehensive income/(loss):			
Items that may not be reclassified to profit or loss			
– Currency translation differences		**26,315**	(955)
Total comprehensive (loss)/income for the year		**(342,323)**	102,784

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(367,231)**	103,739
Non-controlling interests		**(1,407)**	–
		(368,638)	103,739
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		**(340,916)**	102,784
Non-controlling interests		**(1,407)**	–
		(342,323)	102,784
(Loss)/earnings per share for profit for the year attributable to equity holder of the Company			
Basic and diluted (loss)/earnings per share (RMB)	*13*	**(0.96)**	10.88

The notes on pages 127 to 219 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31, 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	8,446	3,931
Right-of-use assets	*15*	32,063	10,394
Deferred tax assets	*16*	40,175	2,625
Investments accounted for using the equity method	*17*	29,169	11,683
Long-term investments measured at fair value through profit or loss	*19*	136,252	77,800
Prepayments, deposits and other assets	*20*	6,915	343
		253,020	106,776
Current assets			
Trade receivables	*21*	48,211	121,536
Inventories		279	222
Prepayments and other assets	*20*	44,004	59,490
Short-term investments measured at fair value through profit or loss	*22*	355,313	1,299
Restricted cash	*23(b)*	–	2,250
Cash and cash equivalents	*23(a)*	1,168,076	443,248
		1,615,883	628,045
		1,868,903	734,821
EQUITY			
Share capital	*24*	44	–
Share premium	*24*	5,151,253	–
Other reserves	*25*	(3,032,555)	139,572
(Accumulated deficit)/retained earnings		(472,600)	74,631
Equity attributable to equity holders of the Company		1,646,142	214,203
Non-controlling interests		193	–
Total equity		1,646,335	214,203

	Notes	As at December 31, 2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	*27*	**22,735**	6,816
Financial instruments issued to investors	*28*	**–**	89,067
		22,735	95,883
Current liabilities			
Trade payables	*30*	**5,745**	13,329
Other payables and accruals	*31*	**103,346**	169,464
Contract liabilities	*26*	**74,918**	227,949
Current income tax liabilities		**5,997**	10,415
Lease liabilities	*27*	**9,827**	3,578
		199,833	424,735
Total liabilities		**222,568**	520,618
Total equity and liabilities		**1,868,903**	734,821

The notes on pages 127 to 219 are an integral part of these consolidated financial statements.

The financial statements on pages 120 to 219 were approved by the Board of Directors on March 24, 2022 and were signed on its behalf.

Yang Xu
Director

Huang Zhiqiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company						
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As at January 1, 2020		–	–	47,527	65,892	113,419	–	113,419
Comprehensive income								
Profit for the year		–	–	–	103,739	103,739	–	103,739
Other comprehensive income								
– Currency translation differences		–	–	(955)	–	(955)	–	(955)
Total comprehensive income for the year		–	–	(955)	103,739	102,784	–	102,784
Transaction with owners in their capacity as owners								
Dividend distribution to the then shareholders	*32*	–	–	–	(90,000)	(90,000)	–	(90,000)
Appropriation to statutory reserves	*25*	–	–	5,000	(5,000)	–	–	–
Capital contributions from the then shareholders	*25*	–	–	31,983	–	31,983	–	31,983
Share-based payment	*6*	–	–	56,017	–	56,017	–	56,017
Total transactions with owners in their capacity as owners for the year		–	–	93,000	(95,000)	(2,000)	–	(2,000)
As at December 31, 2020		–	–	139,572	74,631	214,203	–	214,203

	Notes	Attributable to equity holders of the Company						
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As at January 1, 2021		–	–	139,572	74,631	214,203	–	214,203
Comprehensive loss								
Loss for the year		–	–	–	(367,231)	(367,231)	(1,407)	(368,638)
Other comprehensive income								
– Currency translation differences		–	–	26,315	–	26,315	–	26,315
Total comprehensive (loss)/income for the year		–	–	26,315	(367,231)	(340,916)	(1,407)	(342,323)
Transaction with owners in their capacity as owners								
Dividend distribution to the then shareholders	32	–	–	–	(180,000)	(180,000)	–	(180,000)
Changes in the carrying amount of financial instruments issued to investors	28	–	–	(251,564)	–	(251,564)	–	(251,564)
Effect of Share Exchange	29	–	–	(633,303)	–	(633,303)	–	(633,303)
Effect of Reorganization of the Group	24	1	2,313,575	(2,313,575)	–	1	–	1
Conversion of Preferred Shares to ordinary share	24	–	2,093,797	–	–	2,093,797	–	2,093,797
Capitalization Issue	24	38	(38)	–	–	–	–	–
Issuance of ordinary shares upon Initially public offering	24	5	743,919	–	–	743,924	–	743,924
Capital contribution of non-controlling interest		–	–	–	–	–	1,600	1,600
Total transactions with owners in their capacity as owners for the year		44	5,151,253	(3,198,442)	(180,000)	1,772,855	1,600	1,774,455
As at December 31, 2021		44	5,151,253	(3,032,555)	(472,600)	1,646,142	193	1,646,335

The notes on pages 127 to 219 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	207,450	444,097
Income tax paid		(7,506)	(496)
Net cash generated from operating activities		199,944	443,601
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(5,920)	(3,481)
Purchase of short-term financial assets at fair value through profit and loss	22	(603,851)	(8,247)
Redemption of short-term financial assets at fair value through profit and loss	22	252,410	18,440
Acquisition of long-term investments measured at fair value through profit or loss	19	(56,000)	(56,234)
Redemption of financial assets measured at amortised cost		–	85,000
Interest income received from financial assets measured at amortised cost		–	2,430
Acquisition of investments accounted for using the equity method	17	(12,109)	–
Loan repayment from related parties and third parties (including interests)		367	30,375
Loan to related parties and third parties		–	(18,695)
Dividends from long-term investments measured at fair value through profit or loss	10	8	–
Net cash (used in)/generated from investing activities		(425,095)	49,588
Cash flows from financing activities			
Capital contributions from the then shareholders	24	1	31,983
Capital injection from non-controlling interest		1,600	–
Issuance of convertible redeemable preferred shares	29	401,000	–
Issuance of ordinary shares upon Initially public offering	24	743,924	–
Dividend paid to the then shareholders of a subsidiary	32	(180,000)	(90,000)
Payment for lease liabilities (including interests)	15	(5,178)	(2,349)
Listing expense payment		(3,917)	–
Net cash generated from/(used in) financing activities		957,430	(60,366)
Net increase in cash and cash equivalents		732,279	432,823
Cash and cash equivalents at the beginning of the year		443,248	26,092
Effects of exchange rate changes on cash and cash equivalents		(7,451)	(15,667)
Cash and cash equivalents at the end of the year	23(a)	1,168,076	443,248

The notes on pages 127 to 219 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General information

Qingci Games Inc. (the "Company") is an exempted company with limited liability incorporated under the laws of the Cayman Islands on March 12, 2021. The Company is an investment holding company. The Company and its subsidiaries, including consolidated structured entities (together, the "Group") are principally engaged in the development and operation of mobile games and provision of information services (the "Listing Business") in the People's Republic of China (the "PRC", "Mainland China"), for the purpose of preparing the consolidated financial statements, PRC and Mainland China refers to the People's Republic of China, excluding the Hong Kong Special Administrative Region ("Hong Kong"), the Macau Special Administrative Region ("Macau") and Taiwan) and other countries and regions.

The Company has its primary listing (the "IPO") on the Stock Exchange of Hong Kong Limited on December 16, 2021.

1.2 History and reorganisation of the Group

Prior to the incorporation of the Company and the completion of the reorganization (the "Reorganization") as described below, the Listing Business was mainly carried out by QC-Game Digital Technology (Xiamen) Co., Ltd ("QC Digital") and its subsidiaries (collectively the "QC Digital Group"), amongst which, 13.33% of the shares of the QC Digital were in the form of ordinary shares with preferential rights which was recognized at financial instruments issued to investors and 86.67% of the share of the QC Digital were in the form of ordinary shares which was recognized in the equity.

In preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganization are set out below:

1.2.1 Incorporation of the Company and the offshore holding structure

On March 12, 2021, the Company was incorporated in the Cayman Islands with an authorized share capital of US$50,000 divided into 5,000,000,000 shares of a par value of US$0.00001 each. Upon incorporation, one share was allotted and issued for cash at par value to the initial subscriber and was subsequently transferred to Keiskei QC Ltd., the holding vehicle of Mr. Yang Xu, the founder, chairman and executive Director of our Group.

On April 1, 2021, Qingci Holding Limited ("Qingci Holding") was incorporated in the British Virgin Islands ("BVI") as a wholly owned subsidiary of the Company.

On April 22, 2021, Qingci (HK) Limited ("QC HK Limited") was incorporated in Hong Kong as a wholly owned subsidiary of the Qingci Holding.

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

1.2.1 Incorporation of the Company and the offshore holding structure (continued)

In April 2021, the shareholders of QC Digital went through a share transfer as disclosed in Note 29. After the share transfer, 33.21% of the share were in the form of ordinary shares with preferential rights and 66.79% of the share were in the form of ordinary shares.

On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 9,530,575 ordinary shares of the Company were allotted and issued at par value US$0.00001 each share to 9 offshore ordinary shareholders, 4,739,938 redeemable and convertible preferred shares ("Series A Preferred Shares") of the Company were issued to Series A investors (Note 29).

On May 26, 2021, 1,152,488 redeemable and convertible preferred shares ("Series B Preferred Shares) of the Company were allotted and issued at par value US$0.00001 each share to Series B Investors (Note 29).

1.2.2 Acquisition of QC Digital Group with restricted operation

On May 10, 2021, QC Interactive Technology Co., Ltd (厦门青瓷互动科技有限公司, the "WFOE") was incorporated in the PRC as a wholly owned subsidiary of the QC HK Limited.

On May 26, 2021, WFOE entered into a series of contractual agreements (collectively the "Contractual Arrangements") with QC Digital and the shareholders of QC Digital. Pursuant to the Contractual Arrangements, WFOE is able to effectively control the operating and financing decisions of QC Digital and its PRC subsidiaries with restricted operation (collectively "the PRC Consolidated Affiliated Entities") and receives substantially all the economic benefits generated by the PRC Consolidated Affiliated Entities. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of the Company and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2.1.

1.2.3 Restructuring of the non-restricted and/or non-prohibited operation

As part of the Reorganization, the business which are not subject to any foreign investment restrictions or prohibition were transferred from QC Digital Group to Qingci Holding. Accordingly, on May 11, 2021, QC Digital transferred 100% equity interests of QC-Game Digital Technology (Hong Kong) Co., Limited ("QC HK"), to Qingci Holding and QC HK became a wholly owned subsidiary of Qingci Holding.

Upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group.

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

As at December 31, 2021, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ registered capital	Effective interest held As at December 31, 2020	Effective interest held As at December 31, 2021	Principal activities and place of operation
Subsidiaries						
Directly held:						
Qingci Holding Limited ("Qingci Holding")	British Virgin Islands, limited liability company	April 2021	USD1	NA	100%	Investment holding, British Virgin Islands
Indirectly held:						
Qingci (HK) Limited ("QC HK Limited")	Hong Kong, limited liability company	April 2021	HKD100	NA	100%	Investment holding, Hong Kong
QC Interactive Technology Co., Ltd (廈門青瓷互動科技有限公司, the "WFOE")	Xiamen, China, limited liability company	May 2021	RMB100,000,000	NA	100%	Investment holding, Xiamen, China
Qingji Limited (青集有限公司)	Hong Kong, limited liability company	July 2021	HKD100	NA	100%	Investment holding, Hong Kong
QC-Game Digital Technology (Hongkong) Co., Limited (香港青瓷數碼技術有限公司, "QC HK")	Hong Kong, limited liability company	October 2019	USD1,000,000	100%	100%	Game operation, Hong Kong
QCPlay Inc.* (株式會社QCPlay, "QC Japan")	Japan, limited liability company	May 2021	JPY50,000,000	NA	100%	Game operation, Japan

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ registered capital	Effective interest held As at December 31, 2020	Effective interest held As at December 31, 2021	Principal activities and place of operation
Shanghai Qingci Culture Media Co., Ltd. (上海清賜文化傳媒有限公司, "QC Shanghai Culture")	Shanghai, China, limited liability company	July 2021	RMB100,000	NA	100%	Game operation, Shanghai, China
Shanghai Qingsi Management Consulting Co., Ltd. (上海青司管理諮詢有限公司, "Shanghai Qingsi")	Shanghai, China, limited liability company	October 2021	RMB150,000,000	NA	100%	Consultation, Shanghai, China
Hainan Qingci Information Consulting Co., Ltd. (海南青瓷信息諮詢有限公司, "Hainan Qingci")	Hainan, China, limited liability company	October 2021	RMB5,000,000	NA	100%	Consultation, Hainan, China
Hainan Qingying Information Consulting Co., Ltd. (海南青影信息諮詢有限公司, "Hainan Qingying")	Hainan, China, limited liability company	October 2021	RMB10,000,000	NA	100%	Consultation, Hainan, China

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ registered capital	Effective interest held As at December 31,		Principal activities and place of operation
				2020	2021	
Structured entities controlled via the Contractual Arrangements:						
QC-Game Digital Technology (Xiamen) Co., Ltd (廈門青瓷數碼技術有限公司, "QC Digital")	Xiamen, China, limited liability company	March 2012	RMB14,270,513	100%	100%	Game development and operation, Xiamen, China
QC-Game Cultural Communication (Xiamen) Co., Limited (廈門青瓷文化傳播有限公司, "QC Cultural")	Xiamen, China, limited liability company	August 2014	RMB10,000,000	100%	100%	Game development and operation, Xiamen, China
QC-Game Digital Technology (Chengdu) Co., Ltd (成都青瓷數碼技術有限公司, "QC Chengdu")	Chengdu, China, limited liability company	April 2016	RMB100,000	100%	NA	Game operation, Chengdu, China
QC Cheng du Interactive Co., Limited (成都青瓷互動網絡科技有限公司, "QC Interactive")	Chengdu, China, limited liability company	August 2021	RMB5,000,000	NA	100%	Game operation, Chengdu, China
QC Chengdu Media Co., Limited (成都青瓷傳媒有限公司, "QC Media")	Chengdu, China, limited liability company	August 2021	RMB2,000,000	NA	60%	Game operation, Chengdu, China
QC Chengdu Software Co., Limited (成都青瓷軟件技術有限公司, "QC Software")	Chengdu, China, limited liability company	August 2021	RMB2,000,000	NA	60%	Game operation, Chengdu, China

The English names of certain subsidiaries referred herein represent the directors' best effort at translating the Chinese names of these companies as no English names have been registered.

All companies comprising the Group have adopted December 31 as their financial year end date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 below.

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on January 1, 2021:

Amendments to IFRS 16	COVID-19-related rent concessions
Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform

The adoption of these new and amended standards does not have material impact on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards and amendments not yet adopted by the management of the Group

The following new standards and amendments to standards have not come into effect for the financial year beginning January 1, 2021 and have not been early adopted by the Group in preparing these consolidated financial statements. None of these new standards and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

		Effective for accounting year beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 37	Onerous contract – cost of fulfilling a contract	January 1, 2022
Annual Improvements	Improvements to IFRS Standards 2018–2020	January 1, 2022
Amendments to IAS 1	Classification of Liabilities as current and non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. Management expects that "IAS 1 (Amendment) 'Classification of liabilities as current or non-current'", after its adoption on January 1, 2023, may cause a reclassification of "Convertible Redeemable Preferred Shares" from non-current liabilities to current liabilities, as the preferred shares may be converted into ordinary shares at the option of the preferred shareholders at any time. Except for this, no significant impact on the financial performance and positions of the Group is expected when they become effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement (including structured entities) with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statements, consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of financial position respectively.

2.2.1 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into the Contractual Arrangements with QC Digital, which enable the WFOE and the Group to:

- exercise power to direct the PRC Consolidated Affiliated Entities' relevant activities;

- exercise equity holders' voting rights of the PRC Consolidated Affiliated Entities;

- receive substantially all of the economic interest returns generated by the PRC Consolidated Affiliated Entities, in consideration for the business support by the WFOE, at the WFOE's discretion;

- obtain an irrevocable and exclusive right to purchase all equity interests in QC Digital from its registered equity holders at a nominal consideration unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. Where the purchase consideration is required by the relevant government authorities to be an amount other than a nominal amount, the registered equity holders of QC Digital shall return the amount of purchase consideration they have received to the WFOE. At the WFOE's request, the registered equity holders of QC Digital will promptly and unconditionally transfer their respective equity interests in QC Digital to the WFOE (or its designee within the Group) after the WFOE exercises its purchase right; and

- obtain a pledge over the entire ownership interests of QC Digital from its registered equity holders to secure performance of their obligations under the Contractual Arrangements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Subsidiaries controlled through Contractual Arrangements (continued)

As a result of the Contractual Arrangements, the Company has rights to exercise power over the PRC Consolidated Affiliated Entities, receive variable returns from its involvement with the PRC Consolidated Affiliated Entities, and has the ability to affect those returns through its power over the PRC Consolidated Affiliated Entities. Therefore, the Company is considered to control the PRC Consolidated Affiliated Entities. Consequently, the Company regards the PRC Consolidated Affiliated Entities as controlled structured entities and consolidates the financial positions and results of operations of these entities in the consolidated financial statements of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Consolidated Affiliated Entities and such uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Consolidated Affiliated Entities. The directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2.2.2 Business combination

The Group applies the acquisition method to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.2 Business combination (continued)

The excess of the consideration transferred, amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss. Amounts classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in profit or loss.

2.2.3 Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

2.2.4 Disposal of subsidiaries

When the Group ceases to consolidate a subsidiary because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. All investments in associates in the form of ordinary shares with significant influence are accounted for using the equity method of accounting, after initially being recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an investment accounted for using the equity method equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that investments accounted for using the equity method are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount in "Losses on impairment of investments accounted for using the equity method" in the consolidated income statements.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

Items included in the financial information 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 functional currencies of the Company and its subsidiaries outside mainland China are USD, while the functional currencies of the Company's subsidiaries in the mainland China are RMB. As the major operations of the Group during the reporting period are within the mainland China, the Group determined to present its Financial Information in RMB (unless otherwise stated).

2.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in consolidated statements of comprehensive income on a net basis within "Other losses, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in consolidated statements of comprehensive income as part of the "Fair value changes on investments measured at fair value through profit or loss".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

2.6.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- 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;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this 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 rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

Depreciation on Property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Servers and other equipment	5 years
• Office appliances	5 years
• Vehicles	5 years

Property, plant and equipment arising from business acquisition is depreciated over the remaining useful life.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (continued)

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains/(losses), net" in the statements of comprehensive income.

2.8 Intangible assets

Intangible assets mainly include game license, intangible assets are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

2.9 Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Game licenses and prepayments for game licenses and sharing of proceeds are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company regularly assesses the possibility whether relevant games could be successfully published and estimates the future return from these games to assess impairment indicator of those prepayments (Note 20).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (a) the contractual rights to receive the cash flows from the financial asset expire; or (b) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (c) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other (losses)/gains together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other (losses)/gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other (losses)/gains and impairment expenses are presented as separate line item in the statement of comprehensive income.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Fair value changes on investments measured at fair value through profit or loss" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

2.10.3 Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established. Changes in the fair value of financial assets measured at FVPL are recognised in other (losses)/gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.4 Impairment

The Group has 2 types of financial assets subject to IFRS 9's new expected credit loss model:

- trade receivables; and
- other receivables.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Group uses practical expedients when estimating lifetime expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note 3.3.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. As the derivative financial instruments do not qualify for hedge accounting treatment, the resulting gain or loss is recognized in profit or loss immediately.

The Group's derivative financial instruments mainly represented foreign exchange forward contracts within one year. The Group presents these contracts as current financial assets at FVPL or current financial liabilities at FVPL according to the fair value position of foreign exchange forward contracts at each period end.

2.12 Financial instruments issued to investors

Financial instruments issued to investors represented issuance of ordinary shares with certain preferential rights to certain investors of QC Digital. According to the agreement, the ordinary shares will become redeemable by the holder under certain events which are out of the Group's control.

As the Group does not have the unconditional right to avoid delivering cash or another financial assets to settle contractual obligation, the Group recognized a financial liability which recognized initially at the present value of the redemption amount. The financial liabilities are subsequently measured at amortized cost. Interests from the financial instruments are charged in "Losses from financial instruments issued to investors". Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate, and the adjustments will be recognized as "Losses from financial instruments issued to investors" (Note 28). The redemption liabilities are classified as current liabilities unless the preferential rights can only be exercised after 12 months after the end of each reporting period.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, deposits held by financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.16 Inventories

Inventories are mainly merchandise and are stated at the lower of cost and net realizable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventories are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Convertible redeemable preferred shares

Preferred shares issued by the Company ("Preferred Shares") are redeemable upon occurrence of certain future events. These instruments are also attached with a conversion option.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs. The component of fair value changes relating to the Company's own credit risk is recognized in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Other fair value changes relating to market risk are recognized in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.20.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

2.20.2 Deferred income tax inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.20.3 Deferred income tax outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

2.20.4 Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

2.21.1 Pension and social obligations

The Group companies operate various defined contribution plan in accordance with the local conditions and practices in which they operate. Defined contribution plans are pensions and the other social benefit plans under which the Group pay fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as labor costs when they are due.

2.21.2 Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

2.21.3 Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

2.21.4 Share-based payments

The Group receives services from employees, directors who has contributed or will contribute to the Group as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense in the consolidated statements of comprehensive income with a corresponding increase in equity.

In terms of the shares, the total amount to be expensed is determined by reference to the fair value of equity instruments 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.

Non-marketing performance and service conditions are included in calculation of the number of options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.23 Revenue recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. The following is a description of the accounting policy for our principal revenue streams:

The Group is a publisher of mobile games developed by itself or game developers. The Group publishes its self-developed mobile games or licensed mobile games from game developers and earns game operating revenue by publishing them to the game players through distribution channels, e.g. online application stores (such as Apple Inc.'s App Store ("Apple App") and Android based App Stores ("Android App")), as well as web-based and mobile game portals, including the Group's own websites. (collectively referred to as "Distribution Channels").

The games published by the Group are operated under free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game virtual items via payment channels, such as the third-party internet payment systems (the "Payment Channels").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

2.23.1 Game operating revenue

When the Group publishes mobile games developed by game developers, proceeds earned from selling in-game virtual items, are shared between the Group and the game developers, with the amount paid to the developers generally calculated based on amounts paid by players, after deducting the fees paid to Payment Channels and Distribution Channels and multiplied by a predetermined percentage for each game.

The Group evaluates agreements with the game players, game developers, Distribution Channels and Payment Channels in order to determine whether or not the Group acts as the principal or as an agent for the goods or service provided to the customer in the arrangement with each party respectively, which it considers in determining if relevant revenues should be reported gross or net of the predetermined amount of the proceeds shared with the other parties. The determination of whether to record the revenues gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is primarily responsible for fulfilling the promise to provide the specified good or service. This typically includes responsibilities for acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specification); (ii) has inventory risk before the specified good or service has been transferred to a customer, or after transferring the control to the customer (for example, if the customer has a right of return); (iii) has latitude in establishing the prices for the specified goods or services; (iv) has discretion in selection of suppliers.

During the reporting period, the Group takes primary responsibilities in game operation. The Group considered itself as a principal in game operating arrangements and recorded game operating revenues on a gross basis.

Under the arrangements that the Group takes primary responsibilities, the Group considered that (i) the Group is generally the initiator who raise ideas and plans for providing specification, modification or update of the game products or services desired by the game players; (ii) for licensed games, the Group has power to determine game content and to provide game services and products relating to gaming experience to game players; (iii) besides publishing, providing payment solution and marketing promotion, the Group has the right to determine the pricing of in-game virtual items or charge of game downloading (if needed), as well as the selection of Distribution Channels and the Payment Channels. Thus, the Group views game players to be its customers and considers itself as the principal to provide goods or service to game players. Accordingly, the Group records the online game revenue under such arrangements on a gross basis. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developer (if any) are recorded as cost of revenues.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

2.23.1 Game operating revenue (continued)

Where the Group is acting as a principal under the free-to-play model, the Group has determined that it is obligated to provide on-going services to game players, who purchased virtual items to gain an enhanced game-playing experience, and accordingly, the Group recognizes the revenues derive from sale of virtual items as below:

Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied. 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.

Durable virtual items represent items that are accessible and beneficial to paying players over an extended period of time. Revenue is recognised ratably over the average life of durable virtual items for the applicable game, which the Group makes best estimates to be the average playing period of paying players ("Player Relationship Period").

The Group estimates the Player Relationship Period on a game-by-game basis. If there is insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by the Group or by third party developers until the new game establishes its own patterns and history. The Group considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. While the Group believes its estimates to be reasonable based on available game player information, it may revise such estimates in the future as the games' operation periods change, sufficient individual game data become available, or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in Player Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in game player behaviour patterns.

2.23.2 Game licensing revenue

The Group derives revenue from licensing its self-developed games to game publishers, who operate the Group's mobile games in defined regions or countries within a specific period. The licensing fees normally comprise of non-refundable fixed licensing fees (either up-front or under specific payment schedule) and variable licensing fees calculated based on prescribed terms.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

2.23.2 Game licensing revenue (continued)

The Group has evaluated the respective roles and responsibilities of the Group and game publishers in the delivery of game experience to players and concluded that game publishers have the primary responsibility in these licensing arrangements as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under the licensing arrangements. Accordingly, the variable licensing fees (revenue share), which are calculated based on a prescribed percentage of the proceeds received from game publishers, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed licensing fees are initially recorded as contract liabilities and are then recognized as revenue rateably over the license period as the licensing arrangements are considered to be right-to-access licensing arrangements.

2.23.3 Information service revenue

Information service revenue mainly represents revenue generated from in-game marketing and promotion services, which mainly comprises revenues derived from performance based in-game marketing and promotion services provided by the Group. Performance based marketing and promotion contracts are signed between the Group and advertisers or their agencies to establish the service to be provided by the Group and relevant performance measures.

Revenue from performance-based in-game marketing and promotion service is recognized when relevant actual performance measures of in-game marketing and promotion services are fulfilled, such as delivery of download, purchase or registration etc.

2.23.4 Practical expedients applied

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 year or less. Accordingly, the Group does not capitalize any incremental costs to obtain a contract.

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Contract liabilities

Contract liabilities primarily consists of i) the unamortised revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players, and ii) the unamortised balance of the initial license fee paid by licensees.

2.25 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income from term deposits is included in "Interest income".

2.26 Government subsidies

Subsidies from government are recognized at their fair value where there is a reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

Government subsidies relating to costs are recognized in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.27 Leases

The Group leases offices properties, land and buildings, and servers and other equipment as lessee. Rental contracts are typically made for fixed periods of 1 to 4 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs; and
- restoration costs.

The lease payments are discounted using the interest rate implicit in the lease, if that rate cannot be readily determined, which is generally the case for leases of the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in consolidated statements of comprehensive income. Short-term leases are leases with a lease term of 12 months or less and leases with a remaining term of 12 months or less as at the date of initial adoption of IFRS 16.

The right-of-use assets and the lease liabilities are present separately on the consolidated statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Leases (continued)

The Group applied the practical expedient by electing not to separate the non-lease components, such as maintenance services provided by the landlord from lease components for the property rental contacts, and instead account for each lease component and any associated non-lease components as a single lease component.

2.28 Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

3.1 Financial risk factors

(a) Market risk

Foreign exchange risk

For the Group's subsidiaries in mainland China whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, net profits would have been approximately RMB22.78 million and RMB13.26 million, higher/lower for the years ended December 31, 2020 and 2021 respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.

Price risk

The Group is exposed to price risk in respect of long-term and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and short-term investments measured at fair value through profit or loss, and details of which have been disclosed in Note 23(a) and Note 22 respectively.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term investments, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and cash equivalents and short-term investment measured

To manage risk arising from cash and cash equivalents and short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China. There has been no recent history of default in relation to these financial institutions. The expected credit loss is immaterial.

(ii) Credit risk of trade receivables

Trade receivables at the end of each reporting period were due from Distribution Channels and game publishers, as well as due from information service customers. If the strategic relationship with Distribution Channels, game publishers and information service customers are terminated or scaled-back, or if they alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with Distribution Channels, game publishers and information service customers to ensure the effective credit control. In view of the history of cooperation with Distribution Channels, game publishers and information service customers and the sound collection history of receivables due from them, the directors of the Group believe that the credit risk inherent in the Group's outstanding trade receivable balances is low.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Credit risk of deposits and other assets

For deposits and other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other assets based on historical settlement records and past experiences.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counter party;
- significant increases in credit risk on other financial instruments of the same counter party;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the counter party, including changes in the payment status of debtor in the Group and changes in the operating results of the counter party.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Credit risk of deposits and other assets (continued)

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 180 days of when they fall due.

The Group makes periodic assessment on the credit risk of the deposits and other assets based on the history of cooperation with counterparties settlement records and past experience, the directors believe that the credit risk inherent in the outstanding deposits and other assets due from the debtors is low and has not increased significantly since initial recognition. Based on the assessment, the directors believe that allowance for impairment of deposits and other assets is immaterial to the Group.

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 categories deposits and other assets for write off when a debtor fails to make contractual payments/repayable demanded greater than 720 days past due. Where deposits and other assets have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Over 5 year RMB'000	Total RMB'000
As at December 31, 2021					
Trade payables	**5,745**	–	–	–	**5,745**
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	**19,833**	–	–	–	**19,833**
Lease liabilities	**9,886**	**9,904**	**15,885**	–	**35,675**
	35,464	**9,904**	**15,885**	–	**61,253**
As at December 31, 2020					
Trade payables	13,329	–	–	–	13,329
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	455	–	–	–	455
Lease liabilities	3,666	3,760	3,813	–	11,239
	17,450	3,760	3,813	–	25,023

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's risk associated with capital management is low.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements.

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as at December 31, 2020 and 2021, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments mainly include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of foreign currency forward contracts is determined using forward exchange rates at each of the balance sheet dates;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

As at December 31, 2020 and 2021, none of the Group's financial liabilities are measured at fair value. The following table presents the Group's assets that are measured at fair value as at December 31, 2020 and 2021.

	Notes	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2021					
Short-term investments measured at fair value through profit or loss	*22*				
– Investment funds *(i)*		–	**1,072**	**354,241**	**355,313**
Investments in unlisted companies and private equity funds	*19*				
– Investments in private equity funds		–	–	**58,997**	**58,997**
– Investments in unlisted companies		–	–	**77,255**	**77,255**
		–	**1,072**	**490,493**	**491,565**
As at December 31, 2020					
Short-term investments measured at fair value through profit or loss	*22*				
– Investment funds *(i)*		–	1,059	–	1,059
– Derivative financial instruments– Foreign currency forward contracts *(ii)*		–	240	–	240
Investments in unlisted companies and private equity funds	*19*				
– Investments in private equity funds		–	–	17,633	17,633
– Investments in unlisted companies		–	–	60,167	60,167
		–	1,299	77,800	79,099

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

(i) *Investment funds' principal and returns are not guaranteed. The Group invested in investment funds which holds a combination of term deposits, securities and futures. Fair value of Level 2 investment funds were recognized based on the periodic reports from investment funds. Fair value of Level 3 investment funds were determined by using various applicable valuation techniques. Changes in fair value of these financial assets had been recognized in "Fair value changes on investments measured at fair value through profit or loss" in the consolidated statements of comprehensive income.*

(ii) *The Group entered into foreign exchange forward contracts to manage its foreign currency exposure. The outstanding notional amount of foreign exchange forward contracts as at December 31, 2020 was USD10 million that due in one year. Fair value gain amounting to RMB0.24 million for the year ended December 31, 2020 and fair value gain amounting to RMB1.89 million for the year ended December 31, 2021, were recognized in profit or loss, respectively. Changes in fair value of these foreign exchange forward contracts had been recognized in "Fair value changes on investments measured at fair value through profit or loss" in the consolidated statements of comprehensive income. No foreign exchange forward contract was outstanding as at December 31, 2021.*

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including investments in unlisted companies and private equity funds for the years ended December 31, 2020 and 2021. Details of the movements and significant unobservable inputs used in Convertible redeemable Preferred Shares are set out in Note 29.

Investments in unlisted companies and private equity funds

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
At the beginning of the year	**77,800**	21,646
Additions	**56,000**	56,234
Changes in fair value	**2,452**	(80)
At the end of the year	**136,252**	77,800
Net unrealized gains/(losses)	**2,452**	(80)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(b) Fair value measurements using significant unobservable inputs (level 3) (continued)

Investment funds and wealth management products issued by commercial banks

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**–**	–
Additions	**603,851**	–
Changes in fair value	**670**	–
Redemption	**(250,275)**	–
Currency translation differences	**(5)**	
At the end of the year	**354,241**	–

(c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the use of quoted market prices or dealer quotes for similar instruments;
- the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;
- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc..

There were no change to valuation techniques during the reporting period. Details of the movements and significant unobservable inputs and major assumptions used in the valuation for Convertible redeemable Preferred Shares are presented in Note 29.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(d) Valuation inputs and relationship to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value as at December 31,		Unobservable inputs	Range of inputs as at December 31,		Relationship of unobservable inputs to fair value
	2021 RMB'000	2020 RMB'000		2021	2020	
Investments in unlisted companies and private equity funds	136,252	77,800	Expected volatility	42.87% – 58.04%	44.79% – 72.05%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability ("DLOM")	20.00% – 30.00%	30.00% – 40.00%	The higher the DLOM, the lower the fair value
Investment funds and wealth management products issued by commercial banks	354,241	–	Expected rate of return	1.2% – 3.32%	–	The higher the expected rate of return, the higher the fair value

If expected volatility is 10% higher, the fair value of investments in unlisted companies and private equity funds will be RMB0.61 million and RMB1.04 million higher for the years ended December 31, 2020 and 2021 respectively, and the profit after tax will be RMB0.53 million and RMB0.91 million higher respectively.

If expected volatility is 10% lower, the fair value of investments in unlisted companies and private equity funds will be RMB0.48 million and RMB0.88 million lower for the years ended December 31, 2020 and 2021 respectively, and the profit after tax will be RMB0.42 million and RMB0.77 million lower respectively.

If DLOM is 10% higher/lower, the fair value of investments in unlisted companies and private equity funds will be RMB0.20 million and RMB0.07 million lower/higher for the years ended December 31, 2020 and 2021 respectively, and the profit after tax will be RMB0.20 million and RMB0.06 million lower/higher respectively.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(d) Valuation inputs and relationship to fair value (continued)

If expected rate of return is 10% higher/lower, the fair value of wealth management products issued by commercial banks will be nil and RMB37 thousand higher/lower for the years ended December 31, 2021 respectively, and the profit before tax will be nil and RMB32 thousand higher/lower respectively.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Estimates of Player Relationship Period in the Group's online game services

As described in Note 2.23, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.

4.2 Determination of fair value of long-term and short-term investments

The fair value of long-term and short-term investments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.3 Principal versus agent considerations

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Distribution Channels, the Group's responsibilities in publishing and operating the licensed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine Distribution Channels and Payment Channels.

4.4 Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's history, existing market conditions as well as forward-looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 21. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statements of comprehensive income.

4.5 Income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. 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 income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.6 Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Details of the valuation models, key assumptions and inputs are disclosed in Note 29.

5 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the directors of the Company consider that the Group's operation is operated and managed as a single segment and no segment information is presented, accordingly.

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

Revenue for the years ended December 31, 2020 and 2021 are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Game operating revenues		
–Self-developed	**790,938**	1,082,298
–Licensed	**259,785**	11,150
Subtotal	**1,050,723**	1,093,448
Game licensing revenue	**35,789**	58,576
Information service revenue	**19,304**	74,896
Total revenues	**1,105,816**	1,226,920
Cost of revenues	**(293,217)**	(284,565)
Gross profit	**812,599**	942,355
Gross margin	**73%**	77%

5 SEGMENT INFORMATION AND REVENUE (CONTINUED)

Revenues of approximately RMB134 million and RMB55 million for the years ended December 31, 2020 and 2021, respectively, were from five largest single customers.

During the years ended December 31, 2020 and 2021, none of single customers individually exceeding 10% of the Group's revenue.

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the years ended December 31, 2020 and 2021, respectively:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Service transferred overtime	**560,065**	593,945
Service transferred at a point of time	**545,751**	632,975
	1,105,816	1,226,920

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended December 31, 2020 and 2021, respectively:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Mainland China	**1,062,197**	1,178,903
Outside Mainland China *(a)*	**43,619**	48,017
Total	**1,105,816**	1,226,920

(a) *Revenue from outside Mainland China mainly include revenue from local versions operated in Hong Kong, Taiwan and Macau.*

6 EXPENSES BY NATURE

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Marketing and promotion expenses	**273,673**	524,259
Commissions charged by distribution channels	**204,461**	243,710
Employee benefits expenses *(Note 7)*	**145,732**	226,319
Listing expenses *(a)*	**45,805**	–
Commissions charged by game developers	**40,919**	2,430
Bandwidth and server custody fee	**21,862**	16,022
Outsourced technical services	**13,804**	5,925
Office expenses	**8,091**	3,158
Depreciation of right-of-use assets *(Note 15)*	**5,004**	2,218
Professional services fee	**3,487**	2,670
Auditor remuneration		
– Audit service	**3,200**	–
– Non-audit service	**200**	–
Tax surcharges	**2,882**	3,764
Commissions charged by payment channel	**2,364**	5,397
Rental expenses and utilities	**1,923**	395
Depreciation of property, plant and equipment *(Note 14)*	**1,387**	367
Share-based compensation *(b) (Note 7)*	**–**	56,017
Net impairment losses on financial assets	**(140)**	(364)
Others	**773**	134
Total	**775,427**	1,092,421

(a) *During the year ended December 31, 2021, listing expenses include auditor's remuneration of RMB8.02 million, of which RMB6.96 million was for IPO related audit service and RMB1.06 million was for IPO related non-audit service.*

(b) *In February 2020, subscription right for 8% shares of QC Digital were granted to two senior managements with performance conditions and agreed exercise price. The two senior managements completed performance conditions in December 2020 and injected capitals into QC Digital through their holding vehicle with the agreed exercise price. The fair value of the share option at grant date were recognized as share-based compensation expenses accordingly, and recorded over the period from February 2020 to December 2020, amounting to approximately RMB22 million.*

In December 2020, 2% shares of QC Digital were granted to a senior management upon signing employment offer with agreed exercise price. The senior management completed capital injection in the same month with the agreed exercise price. The fair value of the share option at grant date was recognized as share-based compensation expenses accordingly in December 2020, amounting to approximately RMB34 million.

7 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**131,678**	218,749
Share-based compensation *(Note 6)*	**–**	56,017
Pension and other social security costs	**9,540**	3,558
Other benefits	**4,514**	4,012
Total	**145,732**	282,336

(a) Pension-defined contribution plans

During the year ended December 31, 2020 and 2021, there were no forfeited contributions under the defined contribution schemes. Accordingly, no forfeited contribution was utilized during the year, and there was no forfeited contribution available as at December 31, 2021, to reduce the level of contributions.

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

	Year ended December 31, 2021					
	Director fees	Wages, salaries and bonuses	Pension and other social security costs	Share-based compensation	Other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman						
Yang Xu	–	2,704	43	–	–	2,747
Executive directors						
Huang Zhiqiang	–	3,171	43	–	–	3,214
Zeng Xiangshuo	–	1,654	43	–	–	1,697
Liu Siming	–	3,966	96	–	–	4,062
Independent non-executive directors						
Zhang Longgen	7	–	–	–	–	7
Lam Sing Kwong	7	–	–	–	–	7
Fang Weijin	7	–	–	–	–	7
Total	21	11,495	225	–	–	11,741

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Directors' and chief executive's emoluments (continued)

	Year ended December 31, 2020					
	Director fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Share-based compensation RMB'000	Other benefits RMB'000	Total RMB'000
Chairman						
Yang Xu	–	31,311	27	–	–	31,338
Executive directors						
Huang Zhiqiang	–	25,424	27	18,827	–	44,278
Zeng Xiangshuo	–	10,997	27	3,586	–	14,610
Total	–	67,732	81	22,413	–	90,226

(i) Benefits and interests of directors

Except for disclosed above, there is no other benefit offered to the directors.

(ii) Directors' retirement and termination benefits

No director's retirement or termination benefit subsisted at the end of each year disclosed or at any time during the years ended December 31, 2020 and 2021.

(iii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the each year disclosed or at any time during the years ended December 31, 2020 and 2021.

(iv) Information about borrowings, quasi-borrowings and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

Except for the amounts due from directors of the Company as disclosed in Note 35 (b)(vi)(2), there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year ended December 31, 2020.

During the year ended December 31, 2021, there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Directors' and chief executive's emoluments (continued)

(v) Directors' material interests in transactions, arrangements or contracts

Except for the transactions as disclosed in Note 35(b)(vi)(1), no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of or at any time during the year ended December 31, 2020.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of or at any time during the year ended December 31, 2021.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2020 and 2021, include 3 and 1 directors respectively, whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments for the remaining 2 and 4 individuals for each of the years ended December 31, 2020 and 2021 respectively, are set out below:

	Year ended December 31,	
	2021 **RMB'000**	2020 RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**1,885**	34,695
Contribution to pension scheme	**165**	40
Discretionary bonuses	**18,950**	22,185
Inducement fee to join or upon joining the Group	**–**	–
Compensation for loss of office:		
– contractual payments	**–**	–
– other payment	**–**	–
Total	**21,000**	56,920

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(c) Five highest paid individuals (continued)

	Year ended December 31,	
	2021	2020
Emolument bands (in HKD)		
HKD3,000,001 – HKD3,500,000	**2**	–
HKD5,000,001 – HKD5,500,000	**1**	–
HKD5,500,001 – HKD6,000,000	**1**	–
HKD14,500,001 – HKD15,000,000	**–**	1
HKD36,000,001 – HKD36,500,000	**–**	1
Total	**4**	2

8 FAIR VALUE CHANGES ON INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Fair value changes in long-term investments measured at fair value through profit or loss *(Note 19)*	**2,452**	(80)
Fair value changes in short-term investments measured at fair value through profit or *loss (Note 22)*	**2,578**	674
Total	**5,030**	594

9 OTHER INCOME

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Government subsidies	**11,085**	7,689
Interest income from loans to third parties and related parties	**–**	2,627
Interest income from financial assets at amortised cost	**–**	1,090
Total	**11,085**	11,406

There are no unfilled conditions or contingencies related to the above government subsidies.

10 OTHER LOSSES, NET

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Foreign exchange loss, net	**7,165**	24,712
Donations to charity organizations	**2,587**	2,254
Dividend distribution from long-term investments measured at fair value through profit or loss	**(8)**	–
Others	**(390)**	105
Total	**9,354**	27,071

11 FINANCE INCOME, NET

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	**2,046**	795
Finance costs		
Interest expenses on lease liabilities	**(673)**	(74)
Bank charges	**(185)**	(29)
Finance income, net	**1,188**	692

12 INCOME TAX

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit in respect of operations in Hong Kong.

PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the years ended December 31, 2020 and 2021.

Certain subsidiaries are accredited as a "software enterprise" under the relevant PRC Laws and regulations. They are exempt from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the "tax holiday").

12 INCOME TAX (CONTINUED)

PRC corporate income tax ("CIT") (continued)

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the years ended December 31, 2020 and 2021.

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 January 1, 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% in certain circumstances.

Since the Group intends to permanently reinvest earnings from QC Digital Group to further expand its businesses in PRC after the Reorganization, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period. Cumulative undistributed earnings of the Company's PRC subsidiaries intended to be permanently reinvested were RMB248 million as at December 31, 2021.

The income tax of the Group for the years ended December 31, 2020 and 2021 is analyzed as follows:

	Year ended December 31,	
	2021 **RMB'000**	2020 RMB'000
Current income tax	**4,988**	8,756
Deferred income tax *(Note 16)*	**(37,615)**	821
Total income tax (benefit)/expenses	**(32,627)**	9,577

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended December 31, 2020 and 2021, being the statutory tax rate of the major subsidiaries of the Group.

12 INCOME TAX (CONTINUED)

PRC Withholding Tax ("WHT") (continued)

The difference is analysed as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
(Loss)/profit before income tax	**(401,265)**	113,316
Tax calculated at statutory income tax rate of 25% in mainland China	**(100,316)**	28,329
Tax effects of:		
Effect of different tax rates available to different jurisdictions	**176,513**	(1,061)
Preferential income tax rates applicable to subsidiaries	**(108,448)**	(92,081)
Expenses not deductible for income tax purposes	**440**	13,635
Tax effect of losses from financial instruments issued to investors *(Note 28)*	**13,482**	800
Super Deduction for research and development expenses	**(15,874)**	(16,985)
Tax losses for which no deferred income tax assets were recognized	**246**	25
Temporary differences for which no deferred income tax assets were recognized, net *(a)*	**1,330**	76,915
Total income tax (benefit)/expenses	**(32,627)**	9,577

(a) In the year ended December 31, 2020, RMB307 million of the Group's marketing and promotion expenses exceeded 15 percent of total revenue which can be deducted in future years were not recognized.

13 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders of the Company by the weighted average number of outstanding shares during the years ended December 31, 2020 and 2021.

For the purpose of computing basic and diluted (loss)/earnings per share, 9,530,575 ordinary shares issued in the Reorganisation were assumed to have been issued and allocated from the beginning of the periods presented as if the Company has been established by then. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted.

Redeemable shares that are contingently returnable are not treated as outstanding and are excluded from the calculation of basic (loss)/earnings per share.

13 (LOSS)/EARNINGS PER SHARE (CONTINUED)

(a) Basic (loss)/earnings per share (continued)

	Year ended December 31,	
	2021	2020
(Loss)/profit attributable to ordinary shareholders of the Company (RMB'000)	**(367,231)**	103,739
Weighted average number of outstanding ordinary shares	**384,309,042**	9,530,575
Basic (loss)/earnings per share (RMB)	**(0.96)**	10.88

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of outstanding ordinary shares to assume conversion of all dilutive potential ordinary shares. For the year ended December 31, 2021, the Company had convertible redeemable preferred shares (Note 29) and over-allotment option to the IPO (Note 38). For the year ended December 31, 2021, diluted loss per share presented is the same as the basic loss per share as the inclusion of potential ordinary shares in the calculation of diluted loss per share would be anti-dilutive. For the year ended December 31, 2020, no potential dilutive ordinary shares in issue.

14 PROPERTY, PLANT AND EQUIPMENT

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Total RMB'000
At January 1, 2020				
Cost	1,170	1,673	567	3,410
Accumulated depreciation	(1,170)	(953)	(270)	(2,393)
Net book amount	–	720	297	1,017
Year ended December 31, 2020				
Opening net book amount	–	720	297	1,017
Additions	–	1,339	2,142	3,481
Depreciation	–	(268)	(99)	(367)
Disposal	–	–	(200)	(200)
Closing net book amount	–	1,791	2,140	3,931
At December 31, 2020				
Cost	1,170	3,012	2,140	6,322
Accumulated depreciation	(1,170)	(1,221)	–	(2,391)
Net book amount	–	1,791	2,140	3,931

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Total RMB'000
At January 1, 2021				
Cost	1,170	3,012	2,140	6,322
Accumulated depreciation	(1,170)	(1,221)	–	(2,391)
Net book amount	–	1,791	2,140	3,931
Year ended December 31, 2021				
Opening net book amount	–	1,791	2,140	3,931
Additions	10	2,402	3,508	5,920
Depreciation	(1)	(572)	(814)	(1,387)
Disposal	–	(18)	–	(18)
Closing net book amount	9	3,603	4,834	8,446
At December 31, 2021				
Cost	1,180	5,100	5,648	11,928
Accumulated depreciation	(1,171)	(1,497)	(814)	(3,482)
Net book amount	9	3,603	4,834	8,446

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cost of revenues	250	61
Selling and marketing expenses	312	88
Research and development expenses	669	190
General and administrative expenses	156	28
	1,387	367

15 RIGHT-OF-USE ASSETS

	Properties RMB'000
At January 1, 2020	
Cost	5,939
Accumulated depreciation	(3,721)
Net book amount	2,218
Year ended December 31, 2020	
Opening net book amount	2,218
Additions	10,394
Depreciation *(Note 6)*	(2,218)
Closing net book amount	10,394
At December 31, 2020	
Cost	16,333
Accumulated depreciation	(5,939)
Net book amount	10,394
As at January 1, 2021	
Cost	**16,333**
Accumulated depreciation	**(5,939)**
Net book amount	**10,394**
Year ended December 31, 2021	
Opening net book amount	**10,394**
Additions	**26,673**
Depreciation *(Note 6)*	**(5,004)**
Closing net book amount	**32,063**
At December 31, 2021	
Cost	**43,006**
Accumulated depreciation	**(10,943)**
Net book amount	**32,063**

15 RIGHT-OF-USE ASSETS (CONTINUED)

The consolidated statement of comprehensive income and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Depreciation charge of right-of-use assets	**5,004**	2,218
Interest expenses	**673**	74
Expenses relating to short-term leases	**1,923**	395
The cash outflow for leases payment related to short-term lease as operating activities	**1,923**	395
The cash outflow for leases as financing activities	**5,178**	2,349

16 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

Deferred tax assets

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
– Right-of-use assets and lease liabilities	**162**	–
– Tax losses	**13,000**	434
– Investments measured at fair value through profit or loss	**–**	46
– Marketing and promotion expenses	**16,430**	–
– Loss allowance for financial assets	**13**	7
– Contract liabilities	**9,151**	583
– Temporary difference related to payroll payables	**2,259**	1,743
Total gross deferred tax assets	**41,015**	2,813
Set-off of deferred tax liabilities pursuant to set-off provisions	**(840)**	(188)
Net deferred tax assets	**40,175**	2,625

16 DEFERRED INCOME TAXES (CONTINUED)

Deferred tax assets (continued)

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Deferred tax assets:		
– to be recovered within 12 months	**25,236**	2,625
– to be recovered after 12 months	**14,939**	–
	40,175	2,625

Deferred tax liabilities

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
– Long-term investments measured at fair value through profit or loss	**521**	–
– Short-term investments measured at fair value through profit or loss	**319**	188
Total gross deferred tax liabilities	**840**	188
Set-off of deferred tax assets pursuant to set-off provisions	**(840)**	(188)
Net deferred tax liabilities	**–**	–

16 DEFERRED INCOME TAXES (CONTINUED)

Deferred tax assets

The movement on the gross deferred income tax assets is as follows:

	Tax losses	Net impairment loss on financial assets	Investments measured at fair value through profit or loss	Marketing and promotion expenses	Right-of-use assets and lease liabilities	Contract liabilities	Temporary difference related to payroll payables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2020	1,288	110	36	–	7	752	1,356	3,549
Credited/(charged) to consolidated income statement	(854)	(103)	10	–	(7)	(169)	387	(736)
At December 31, 2020	434	7	46	–	–	583	1,743	2,813
Credited/(charged) to consolidated income statement	12,626	6	(46)	16,430	162	8,573	516	38,267
Currency translation differences	(60)	–	–	–	–	(5)	–	(65)
At December 31, 2021	**13,000**	**13**	**–**	**16,430**	**162**	**9,151**	**2,259**	**41,015**

16 DEFERRED INCOME TAXES (CONTINUED)

Deferred tax liabilities

The movement on the gross deferred income tax liabilities is as follows:

	Long-term investments measured at fair value through profit or loss RMB'000	Short term investments measured at fair value through profit or loss RMB'000	Total RMB'000
At January 1, 2020	–	103	103
Charged to consolidated income statement	–	85	85
At December 31, 2020	–	188	188
Charged to consolidated income statement	521	131	652
At December 31, 2021	**521**	**319**	**840**

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at December 31, 2020 and 2021, the Group did not recognize deferred income tax assets of RMB0.05 million and RMB0.25 million, in respect of cumulative tax losses amounting to RMB0.37 million and RMB0.98 million. These tax losses in Mainland China will expire from 2026 to 2027.

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**11,683**	12,087
Additions *(a)*	**12,109**	–
Share of results of associates	**5,377**	(404)
At the end of the year	**29,169**	11,683

(a) During the year ended December 31, 2021, the Group further obtained 21% shares of an associate which mainly engaged in mobile game development with a consideration of RMB7.1 million. After the transaction, the Group held 45.64% shares of the unlisted Company. The Group remained significant influence in the unlisted company.

(b) The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	**29,169**	11,683
Aggregate amounts of the Group's share of:		
– Profit/(loss) from operations	**5,377**	(404)

18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at December 31, 2021 RMB'000	2020 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss:		
– Long-term investments measured at fair value through profit or loss *(Note 19)*	136,252	77,800
– Short-term investments measured at fair value through profit or loss *(Note 22)*	355,313	1,299
	491,565	79,099
Financial assets at amortized costs:		
– Trade receivables *(Note 21)*	48,211	121,536
– Deposits and other assets	4,237	3,154
– Cash and cash equivalents *(Note 23(a))*	1,168,076	443,248
– Restricted cash *(Note 23(b))*	–	2,250
	1,220,524	576,440
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortized costs:		
– Lease liabilities *(Note 27)*	32,562	10,394
– Trade payables *(Note 30)*	5,745	13,329
– Other payables (excluding salaries and benefits payable and other tax payables) *(Note 31)*	19,833	455
– Financial instruments issued to investors *(Note 28)*	–	89,067
	58,140	113,245

All Financial assets and liabilities measured at fair value through profit or loss are denominated in RMB.

19 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Movements in long-term investments measured at fair value through profit or loss during the year ended December 31, 2020 and 2021, are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**77,800**	21,646
Additions *(a)*	**56,000**	56,234
Change in fair value *(Note 8)*	**2,452**	(80)
At the end of the year	**136,252**	77,800

As at December 31, 2020 and 2021, long-term investments measured at fair value through profit or loss mainly represented: 1) investments in associates with significant influence in the form of redeemable instruments and measured at fair value through profit or loss; 2) equity investments in private equity funds in which the Group act as limited partners without significant influence. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Investments in private equity funds	**58,997**	17,633
Investments in unlisted companies	**77,255**	60,167
	136,252	77,800

(a) *During the year ended December 31, 2020, the Group obtained 10% shares of an unlisted company which mainly engaged in game operation and promotion services with a consideration of RMB50 million. The Group made the investment in the form of redeemable instruments and obtained one board seat in the unlisted company. Accordingly, the Group recognized the investment as long-term investments measured at fair value through profit or loss.*

During the year ended December 31, 2021, the Group obtained 10.31% and 3.58% shares of two private equity funds which mainly invested in internet and game industry, with a consideration of RMB10 million and RMB30 million, respectively. The Group had no significant influence in the private equity funds and measured the investments as long-term investments measured at fair value through profit or loss.

The Group also obtained 2% shares of an unlisted company which mainly engaged in animation and cartoon production with a consideration of RMB16 million. The Group made the investment in the form of redeemable instruments and had no board seat in the unlisted company. Accordingly, the Group recognized the investment as long-term investments measured at fair value through profit or loss.

20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Non-current		
Rental and other deposits	**1,160**	343
Prepayments for game licenses *(a)*	**5,755**	–
	6,915	343
Current		
Prepayments for marketing and promotion services	**16,445**	50,788
Prepayments for sharing of proceeds *(a)*	**14,554**	1,000
Prepayments to service providers	**6,578**	3,031
Rental and other deposits	**5,659**	3,223
Advance to employees	**–**	367
Loans due from third parties	**–**	165
Others	**781**	959
Less: allowance for impairment	**(13)**	(43)
	44,004	59,490

(a) *The Group licenses online games from game developers and pays game license fees and sharing of proceeds earned from selling in-game virtual items to game developers. The prepayments for game license fees are transferred to intangible assets when the Group receives related licensed games. The prepayments for sales-based sharing of proceeds are expensed and recorded into cost of revenues on incurred basis.*

21 TRADE RECEIVABLES

	As at December 31, 2021 RMB'000	2020 RMB'000
Distribution channels	**38,646**	80,000
Game publishers	**9,087**	34,936
Information service customers	**555**	6,832
	48,288	121,768
Less: allowance for impairment	**(77)**	(232)
	48,211	121,536

	As at December 31, 2021 RMB'000	2020 RMB'000
Third parties	**39,299**	86,832
Related parties	**8,989**	34,936
	48,288	121,768
Less: allowance for impairment	**(77)**	(232)
	48,211	121,536

21 TRADE RECEIVABLES (CONTINUED)

(a) Distribution Channels and game publishers and information service customers usually settle the amounts within 30–60 days. Aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Within 3 months	**47,208**	99,028
3 months to 6 months	**1,080**	22,698
6 months to 1 year	**–**	42
1 to 2 years	**–**	–
	48,288	121,768

(b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. During the years ended December 31, 2020 and 2021, the expected loss rate for related parties trade receivables is low and immaterial, and the expected credit loss rates for third-parties trade receivables are determined according to provision matrix as follows:

	As at December 31,	
	2021	2020
Within 3 months	**0.17%**	0.19%
3 months to 6 months	**2.14%**	3.12%
6 months to 1 year	**9.04%**	18.41%
1 to 2 years	**34.66%**	67.48%
Over 2 years	**100.00%**	100.00%

The expected loss rates are based on the payment profiles of sales over a period of 24 month before December 31, 2020 and 2021 respectively and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified growth rate of Gross Domestic Product and IT & Information Service Output Price Index of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

21 TRADE RECEIVABLES (CONTINUED)

(b) (continued)

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**232**	717
Provision	**77**	231
Reversal	**(214)**	(504)
Receivables written off during the year as uncollectable	**(18)**	(212)
At the end of the year	**77**	232

The provisions and reversal of provisions for impaired receivables have been included in "Net impairment losses on financial assets" in the consolidated statement of comprehensive income.

(c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as at December 31, 2020 and 2021.

(d) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
USD	**34,053**	87,182
RMB	**14,235**	34,586
	48,288	121,768

(e) The maximum exposure to credit risk as at December 31, 2020 and 2021 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

22 SHORT-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The short-term investments measured at fair value through profit or loss are foreign exchange forward contracts, investment funds and wealth management products issued by commercial bank of which principal and returns are not guaranteed. The fair values of the foreign exchange forward contracts and investment funds were recognized based on the periodic valuation reports from commercial banks and investment funds and were within level 2 of the fair value hierarchy. The fair values of wealth management products are based on discounted cash flow using the expected return based on management judgment and are within level 3 of the fair value hierarchy (Note 3.3)

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Short-term investments measured at fair value through profit or loss	**355,313**	1,299

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**1,299**	10,818
Additions	**603,851**	8,247
Change in fair value *(Note 8)*	**2,578**	674
Redemption	**(252,410)**	(18,440)
Currency translation differences	**(5)**	–
At the end of the year	**355,313**	1,299

23 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS

(a) Cash and cash equivalents

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Cash on hand and cash in bank	**1,166,993**	440,059
Cash held by other financial institutions *(i)*	**1,083**	3,189
	1,168,076	443,248

(i) *As at December 31, 2020 and 2021, the Group had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the consolidated statements of financial position.*

Cash and cash equivalents are denominated in the following currencies:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
RMB	**169,403**	79,446
USD	**243,475**	362,963
HKD	**754,499**	839
JPY	**699**	–
	1,168,076	443,248

23 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS (CONTINUED)

(b) Restricted Cash

Restricted Cash are denominated in the following currencies:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
RMB	–	1,321
USD	–	929
	–	2,250

As at December 31, 2020, RMB1.32 million and USD0.14 million (equivalent to approximately RMB0.93 million) were cash deposits held by bank as performance guarantee for foreign exchange forward contracts signed with the same bank. No foreign exchange fund contract was outstanding as at December 31, 2021.

24 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares '000	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000
Authorised				
As at January 1, 2021	–	–	–	–
Authorization of ordinary shares of US0.00001 each on March 12, 2021 (date of incorporation)	**5,000,000**	**50**	–	–
As at December 31, 2021	**5,000,000**	**50**	–	–
Issued				
As at January 1, 2021	–	–	–	–
Issuance of ordinary shares in relation to the Reorganisation of the Group *(a)*	**9,530**	–	**1**	**2,313,575**
Conversion of Preferred Shares to ordinary shares *(b)*	**5,893**	–	–	**2,093,797**
Capitalization Issue *(c)*	**584,577**	**6**	**38**	**(38)**
Issuance of ordinary shares upon IPO *(d)*	**85,000**	**1**	**5**	**743,919**
As at December 31, 2021	**685,000**	**7**	**44**	**5,151,253**

24 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

(a) *On May 14, 2021, as part of the Reorganization, the Company allotted and issued an aggregate of 9,530,575 ordinary shares at par value of US$0.00001 each share to offshore holding vehicles which are beneficially owned by the ordinary shareholders of QC Digital as at that date. Upon completion of the Reorganization, the fair value of ordinary shares of QC Digital amounting to RMB2,313 million was transferred from capital reserve to share premium accordingly (Note 36).*

(b) *Upon completion of the IPO, all convertible redeemable preferred shares (Note 29) were converted into ordinary shares. As a result, convertible redeemable preferred shares were derecognized and recorded as share capital and share premium accordingly.*

(c) *On December 16, 2021, the Company allotted and issued a total of 584,576,999 ordinary shares of US$0.00001 each credited as fully paid at par value to the shareholders on the register of members of the Company on the day preceding the date of IPO in proportion to their then existing shareholdings in the Company by capitalizing from the share premium account of the Company ("Capitalization Issue"). The ordinary shares allotted and issued pursuant to the above Capitalization Issue rank pari passu in all respects with the existing issued ordinary shares.*

(d) *On December 16, 2021, upon completion of the IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 85,000,000 new ordinary shares at HKD11.20 per share, and raised gross proceeds of approximately HKD952 million (equivalent to RMB776 million). The net proceeds was approximately HKD912 million (equivalent to RMB744 million) after deducting listing expenses directly relating to the share issuance.*

25 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserves RMB'000	Share-based compensation expense RMB'000	Currency translation differences RMB'000	Total RMB'000
As at January 1, 2020	27,105	6,422	14,000	–	47,527
Appropriation to statutory reserves	–	5,000	–	–	5,000
Capital contributions from the then shareholders	31,983	–	–	–	31,983
Share-based compensation expense *(Note 6)*	–	–	56,017	–	56,017
Currency translation differences	–	–	–	(955)	(955)
As at December 31, 2020	59,088	11,422	70,017	(955)	139,572
As at January 1, 2021	**59,088**	**11,422**	**70,017**	**(955)**	**139,572**
Recognition of redemption liability for the financial instruments issued to investors *(Note 28(a))*	**(251,564)**	**–**	**–**	**–**	**(251,564)**
Effect of Share Exchange *(Note 29)*	**(633,303)**	**–**	**–**	**–**	**(633,303)**
Effect of Reorganization of the Group *(Note 24)*	**(2,313,575)**	**–**	**–**	**–**	**(2,313,575)**
Currency translation differences	**–**	**–**	**–**	**26,315**	**26,315**
As at December 31, 2021	**(3,139,354)**	**11,422**	**70,017**	**25,360**	**(3,032,555)**

26 CONTRACT LIABILITIES

Contract liabilities primarily consists of i) the unamortised revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players, and ii) the unamortised balance of the initial license fee paid by licensees.

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Game operating	**74,012**	227,033
Game licensing	**906**	916
	74,918	227,949

The following table shows the amount of revenue recognized in the consolidated statements of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year		
Game operating	**227,033**	4,288
Game licensing	**–**	813
	227,033	5,101

27 LEASE LIABILITIES

	As at December 31, 2021 RMB'000	2020 RMB'000
Minimum lease payments due		
– Within 1 year	**9,886**	3,666
– Between 1 and 2 years	**9,904**	3,760
– Between 2 and 5 years	**15,885**	3,813
– Over 5 years	**–**	–
	35,675	11,239
Less: future finance charges	**(3,113)**	(845)
Present value of lease liabilities	**32,562**	10,394

	As at December 31, 2021 RMB'000	2020 RMB'000
Lease liabilities		
– Within 1 year	**9,827**	3,578
– Between 1 and 2 years	**9,218**	3,477
– Between 2 and 5 years	**13,517**	3,339
– Over 5 years	**–**	–
	32,562	10,394

28 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS

The movements of the Financial Instruments Issued to Investors are set out below:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**89,067**	82,667
Changes in the carrying amount due to the interest of 8% per annum	**2,940**	6,400
Changes in the carrying amount due to Share Transfer *(a)*		
– Losses from financial instruments issued to investors	**50,988**	–
– Other reserves *(Note 25)*	**251,564**	–
De-recognition upon Share Exchange *(Note 29)*	**(394,559)**	–
At the end of the year	**–**	89,067

In July 2019, QC Digital entered into an investment agreement with G-bits, pursuant to which G-bits made a total investment of RMB80 million in QC Digital as consideration for subscription of QC Digital's paid-in capital of RMB1.7 million, representing 13.33% of equity interest in QC Digital. According to the agreement, these ordinary shares will become redeemable by G-bits under certain events which are out of the Group's control. QC Digital does not have the unconditional right to avoid delivering cash or other financial assets to settle contractual obligation upon occurrence of certain events which are out of the control of the Group. The Group recognized the aforementioned investment made by G-bits (the "Financial Instruments Issued to Investors") as financial liabilities which recognized initially at the present value of the redemption amount, which is computed based on the investment amount of RMB80 million plus an interest of 8% per annum. Any changes in the carrying amount of the financial liabilities were recorded in "Losses from financial instruments issued to investors" of consolidated statements of comprehensive income.

28 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (CONTINUED)

(a) *Before April 21, 2021, G-bits' equity interest in QC Digital includes i) the equity investment in the form of ordinary shares of 21.21%; ii) equity investment in the form of ordinary shares with preferential rights of 12%. On April 21, 2021, Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司) ("Tencent"), Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) ("Shanghai Hode"), and Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司) ("Guangzhou Lingxi"), entered into a share transfer agreement with G-bits, pursuant to which G-bits transferred each 3.37% equity interests in QC Digital to Tencent, Shanghai Hode and Guangzhou Lingxi, respectively (10.11% in aggregate), at an consideration of RMB101.15 million each (RMB303.45 million in aggregate). After this share transfer, the equity investments held by G-bits, Tencent, Shanghai Hode and Guangzhou Lingxi (collectively "Series A Investors"), amounting to 23.10%, 3.37%, 3.37%, 3.37%, respectively, are entitled to preferential rights although the Series A Investors did not contribute consideration in QC Digital during this share transfer. According to the agreement, these ordinary shares held by Series A Investors will become redeemable by Series A Investors under certain events which are out of the Group's Control. Since QC Digital does not have the unconditional right to avoid delivering cash or another financial assets to settle the contractual obligation, the Group Recognized the investments held by Series A Investors as a financial liability of RMB394 million upon the share transfer, which initially recognized at the present value of the redemption amount. The redemption amount is calculated based on the agreed fixed amount plus an interest at eight percent per annum, QC Digital agreed with the Series A Investors a fixed amount (using as the basis to calculate the redemption amount) of RMB90 million for G-bits, and RMB101.15 million each for Tencent, Shanghai Hode and Guangzhou Lingxi respectively. After this share transfer, given the preferential rights granted by the Group To the Series A Investors, the G-bits previously held equity interests of 21.21% in the form of ordinary shares with carrying value of RMB50 million became a financial liability of RMB252 million (Note 25). The financial liability should be initially recognized at the present value of the redemption amount and reclassified from equity, therefore the financial liability amounting to RMB252 million was reclassified from "other reserves" of consolidated statements of financial position. While the liability recognized for G-bits previously held equity interests with preferential rights of 12.00% became a financial liability of RMB142 million, the change from its previous carrying value of RMB91 million, amounting to RMB51 million, was recorded in "Losses from financial instruments issued to investors" of consolidated statements of comprehensive income.*

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 4,739,938 Series A Preferred Shares of the Company were issued to Series A Investors' offshore affiliates ("Series A Preferred Shareholders"). The Group recognized Series A Preferred Shares as financial liabilities measured at fair value through profit or loss of RMB1,028 million at their fair value. Upon entering into the Contractual Arrangements on May 26, 2021, shareholders of QC Digital became nominee shareholders and the preferential rights held by Series A Investors in QC Digital were cancelled accordingly (together with the issuance of Series A Preferred Shares, as the "Share Exchange"). The carrying amount of "financial instruments issued to investors" of RMB395 million was then derecognized accordingly. Upon the Share Exchange, Series A Investors gave up their investments of ordinary shares with preferential rights (which mainly represents a put option under certain condition) that they held in QC Digital, and in return, Series A Investors' offshore affiliates received Series A Preferred Shares of the Company. The management assessed that the Share Exchange involves the de-recognition of ordinary shares with preferential rights (i.e. one equity and one liability) of QC Digital, with carrying amounts of RMB395 million, by issuing Series A Preferred Shares with fair value of RMB1,028 million. The total difference between the fair value of the Series A Preferred Shares and the carrying value of the ordinary shares with preferential rights of QC Digital held by Series A Investors, amounting to RMB633 million, was recorded into i) the consolidated statements of comprehensive income (RMB nil), given the fair value allocated to the liability de-recognised is the same as its carrying value; and ii) the "other reserve" of consolidated statements of financial position (RMB633 million), which representing the difference between the remaining fair value allocated and the carrying value of the equity de-recognised.

On May 26, 2021, Wildlife Willow Limited, Bilibili Inc., Qookka Entertainment Limited and Tencent Mobility Limited (collectively "Series B Preferred Shareholders") entered into share purchase agreement with the Company, pursuant to which an aggregate of 1,152,488 convertible redeemable preferred shares of the Company were allotted to the Series B Preferred Shareholders with a consideration of USD62.61 million, equivalent to approximately RMB401 million. The Group recognized Series B Preferred Shares as financial liabilities measured at fair value through profit or loss.

The key terms of all series of Series A Preferred Shares and Series B Preferred Shares effective and applicable upon their issuance are as follows:

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Liquidation Preferences of Series A Preferred Shares and Series B Preferred Shares

In the event of any i) liquidation; ii) dissolution; iii) winding up or termination of business of the Company; iv) any consolidation, reorganization, amalgamation, merger or other transaction of the Company, with or into any person, or any other corporate reorganization or scheme of arrangement, in which the current shareholders of the Company immediately before such transaction own less than 50% of the voting power of the surviving company immediately after such transaction, whether voluntary or involuntary; v) a sale, lease, transfer, or other disposition, in a single transaction or series of transactions, of all or substantially all of the assets of the Group Companies (including sale or exclusive licensing to any third party other than the Group Companies, in a single transaction or series of transactions, of all or substantially all of the intellectual property of the Group Companies, taken as a whole), the effect of which is the disposition of all or substantially all of the Group Companies' assets taken as a whole; whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the Shareholders (after satisfaction of all creditors' claims and claims that may be preferred by applicable law) shall be distributed to the Shareholders in the sequence of Series B Preferred Shares, Series A Preferred Shares, ordinary shares.

The preferential liquidation amount shall be equal to any dividends declared and unpaid with respect to the Preferred Shares plus the higher of: (i) (A) one hundred percent (100%) of the Preferred Shares Issue Price plus (B) eight percent (8%) simple interest per annum of the Preferred Shares Issue Price accrued annually (which shall be accrued from the Preferred Shares Closing Date to the date when the Preferred Shares Preference Amount is paid) plus (C) all declared but unpaid dividends on such Preferred Shares and (ii) the amount which would have been payable had such Preferred Shares been converted into an Ordinary Share immediately prior to the Liquidation Event or Deemed Liquidation Event.

Conversion Rights of Series A Preferred Shares and Series B Preferred Shares

Each Preferred Share may, at the option of the Preferred Shareholders thereof, be converted at any time after the date of issuance of such Preferred Shares into fully-paid and non-assessable ordinary shares at an initial conversion ratio of 1:1 subject to i) adjustment for share splits and combinations; ii) adjustment for ordinary share dividends and distributions; iii) adjustments for other dividends; iv) adjustments for reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions; v) adjustments to conversion price for dilutive issuance.

In addition, each Preferred Share shall automatically be converted, based on the then-effective conversion price, without any action being required by the holder of such Preferred Share and whether or not the certificates representing such Preferred Share surrendered to the Company or its transfer agent, into fully-paid and non-assessable ordinary shares upon the earlier of (a) the closing of an qualified IPO duly approved in accordance with the shareholders agreement and the memorandum and articles and (b) the date specified by written consent of all the Preferred Holders.

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption Rights of Series B Preferred Shares

Series B Preferred Shares shall be redeemable at the election of Series B Preferred Shareholders upon specific conditions as follows: i) the Company does not consummate a qualified IPO within three years from the closing of issuance of Series B Preferred Shares; ii) the Group is materially in violation of applicable Law and unable to carry out its Principal Business legally; iii) any material breach or violation of or inaccuracy or misrepresentation in any representation or warranty made by the Company or any member of key management Team in the Transaction Documents, or any material breach or violation of any undertaking, covenant or obligation by the Company or any member of key management team contained in the transaction documents; iv) any Series B Preferred Shareholder has exercised its redemption rights.

Dividends and voting rights of Series A Preferred Shares and Series B Preferred Shares

Each preferred shares shall have voting rights and dividend rights equivalent to ordinary shareholders into which such preferred shares could be convertible.

Conversion of Preferred Shares to ordinary shares

Upon the listing on December 16, 2021, all outstanding preferred shares of the Company have been converted into ordinary shares. The convertible redeemable preferred shares was derecognized accordingly (Note 24).

The movements of the convertible redeemable preferred shares are set out as below:

	RMB'000
As at January 1, 2021	–
Issuance of Series A Preferred Shares	**1,027,862**
Issuance of Series B Preferred Shares	**401,000**
Change in fair value	**691,052**
De-recognition upon conversion to ordinary shares upon listing *(Note 24)*	**(2,093,797)**
Currency translation differences	**(26,117)**
As at December 31, 2021	–

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Conversion of Preferred Shares to ordinary shares (continued)

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions are set as below:

	As at December 16, 2021
Discount rate	15%
Risk-free interest rate	3%
DLOM	1%
Volatility	43%

30 TRADE PAYABLES

	As at December 31,	
	2021 RMB'000	2020 RMB'000
Trade payables	5,745	13,329

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 30 to 90 days.

30 TRADE PAYABLES (CONTINUED)

The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at December 31, 2021 RMB'000	2020 RMB'000
RMB	**4,839**	13,319
USD	**802**	10
JPY	**104**	–
	5,745	13,329

As at December 31, 2020 and 2021, the fair value of trade payables approximated to their carrying amount.

Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As at December 31, 2021 RMB'000	2020 RMB'000
Within 3 months	**5,602**	12,291
Over 3 months	**143**	1,038
	5,745	13,329

31 OTHER PAYABLES AND ACCRUALS

	As at December 31, 2021 RMB'000	2020 RMB'000
Salaries and benefits payables	**79,904**	115,143
Other tax payables	**3,609**	53,866
Listing expenses	**15,223**	–
Payables for Professional fee	**3,400**	–
Others	**1,210**	455
	103,346	169,464

31 OTHER PAYABLES AND ACCRUALS (CONTINUED)

The carrying amount of the Group's other payables is denominated in the following currencies:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
RMB	**91,435**	169,422
USD	**11,549**	42
JPY	**280**	–
HKD	**82**	–
	103,346	169,464

32 DIVIDEND DISTRIBUTION

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Dividend Distribution	**180,000**	90,000

Pursuant to the resolutions of the shareholders' meetings of QC Digital in December 2020, dividends of RMB90,000,000 were approved and paid to the then shareholders in cash.

Pursuant to the resolutions of the shareholders' meetings of QC Digital in May 2021, dividends of RMB180,000,000 were approved and paid to the then shareholders in cash.

A final dividend in respect of the year ended December 31, 2021 of HK15.2 cents per share was proposed pursuant to the resolution passed by the board on March 24, 2022 and subject to shareholders' approval at the 2021 annual general meeting of the Company to be held on June 6, 2022. The aggregate amount of the proposed final dividend of HKD105 million, was not reflected as dividend payable in the consolidated financial statements.

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from/(used in) operations

	Notes	Year ended December 31, 2021 HK$'000	2020 HK$'000
(Loss)/profit before income tax		**(401,265)**	113,316
Adjustments for			
Depreciation	6	**6,391**	2,585
Net impairment losses on financial assets	6	**(140)**	(364)
Share-based payments	6	**–**	56,017
Share of results of investments accounted for using equity method	17	**(5,377)**	404
Fair value changes on investments measured at fair value through profit or loss	8	**(5,030)**	(594)
Interest income	9	**–**	(3,717)
Finance costs, net	11	**673**	74
Other losses, net	10	**(8)**	–
Losses from financial instruments issued to investors	28	**53,928**	6,400
Losses on disposal of non-current assets	14	**–**	200
Changes in fair value of convertible redeemable preferred shares	29	**691,052**	–
Net exchange differences		**7,457**	15,667
		347,681	189,988
Changes in working capital			
– Trade receivables		**73,434**	(110,676)
– Prepayments, deposits and other assets		**8,578**	(13,136)
– Restricted cash		**2,250**	(2,250)
– Inventories		**(57)**	(222)
– Trade payables		**(7,584)**	11,421
– Contract liabilities		**(153,031)**	221,932
– Other payables and accruals		**(63,821)**	147,040
Cash generated from operations		**207,450**	444,097

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Net debt reconciliation

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash and cash equivalents	1,168,076	443,248
Financial instruments issued to investors	–	(89,067)
Lease liabilities	(32,562)	(10,394)
Net debt	1,135,514	343,787

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Net debt reconciliation (continued)

	Cash and cash equivalents RMB'000	Financial instruments issued to investors RMB'000	Lease liabilities RMB'000	Convertible redeemable preferred shares RMB'000	Total RMB'000
As at January 1, 2020	26,092	(82,667)	(2,275)	–	(58,850)
Cash flows	432,823	–	2,349	–	435,172
Increase of right-of-use assets	–	–	(10,394)	–	(10,394)
Accrual interest for lease liabilities	–	–	(74)	–	(74)
Losses from financial instruments issued to investors	–	(6,400)	–	–	(6,400)
Foreign exchange adjustments	(15,667)	–	–	–	(15,667)
As at December 31, 2020	443,248	(89,067)	(10,394)	–	343,787
As at January 1, 2021	443,248	(89,067)	(10,394)	–	343,787
Cash flows	732,279	–	5,178	(401,000)	336,457
Issuance of Series A Preferred Shares	–	–	–	(1,027,862)	(1,027,862)
Increase of right-of-use assets	–	–	(26,673)	–	(26,673)
Accrual interest for lease liabilities	–	–	(673)	–	(673)
Losses from financial instruments issued to investors	–	(53,928)	–	–	(53,928)
Changes in carrying amount due to Share Transfer *(Note 28(a))*	–	(251,564)	–	–	(251,564)
De-recognition of financial instruments issued to investors *(Note 29)*	–	394,559	–	–	394,559
Changes in fair value of convertible redeemable preferred shares	–	–	–	(691,052)	(691,052)
De-recognition upon conversion to ordinary shares upon listing	–	–	–	2,093,797	2,093,797
Currency translation differences	–	–	–	26,117	26,117
Foreign exchange adjustments	(7,451)	–	–	–	(7,451)
As at December 31, 2021	1,168,076	–	(32,562)	–	1,135,514

34 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of long-term equity investments as at December 31, 2020 and 2021. The Group has commitments to make the following future installments under non-cancelable agreements are as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Long-term investments	**11,000**	31,000

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the years ended December 31, 2020 and 2021.

Name of related parties	Relationship
Shenzhen Hot Zone Network Technology Co., Ltd.	Associate
Chengdu Weimei Interactive Technology Co., Ltd	Associate
Shenzhen Jishiwu Technology Co., Ltd.	Associate
Guangzhou Jodo Information and Technology Co., Ltd.	Associate
G-bits Group *(1)*	Shareholder
Mr. Yang Xu	Shareholder and director
Mr. Huang Zhiqiang	Shareholder and director
Mr. Zeng Xiangshuo	Shareholder and director
Mr. Wei Shumu	Shareholder
Brilliance Investment Limited	Entity controlled by Mr. Yang Xu

(1): G-bits Network Technology (Xiamen) Co., Ltd. ("G-bits Xiamen") is a shareholder of the Company. G-bits Group represents G-bits Xiamen and its subsidiaries, including Shenzhen Leiting Information Technology Co., Ltd., Xiamen Leiting Network Technology Co., Ltd. and Hongkong Leiting Information Technology Co., Ltd.

(b) Significant transactions with related parties

(i) Game licensing revenue

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
G-bits Group	**35,374**	57,196

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties (continued)

(ii) Information service revenue

	Year ended December 31, 2021 RMB'000	2020 RMB'000
G-bits Group	**218**	–

(iii) Commission to game developers

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Shenzhen Jishiwu Technology Co., Ltd.	**35,937**	–
Shenzhen Hot Zone Network Technology Co., Ltd.	**3,007**	2,111
Chengdu Weimei Interactive Technology Co., Ltd	**–**	1,152
	38,944	3,263

(iv) Marketing and promotion expenses

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Guangzhou Jodo Information and Technology Co., Ltd.	**14,379**	79,388
G-bits Group	**14,440**	66,843
	28,819	146,231

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties (continued)

(v) Rental expenses

	Year ended December 31, 2021 RMB'000	2020 RMB'000
G-bits Group	**3,791**	2,292

(vi) Interest income from related party

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Brilliance Investment Limited *(1)*	–	1,454
Mr. Huang Zhiqiang *(2)*	–	29
Mr. Wei Shumu *(2)*	–	16
Mr. Zeng Xiangshuo *(2)*	–	30
	–	1,529

(1) Brilliance Investment Limited, a limited liability company incorporated in the Cayman Islands and controlled by Mr. Yang Xu, signed certain overseas game operation contracts with third party suppliers on behalf of the Group. Amounts due from related party represented the operation revenue received by Brilliance Investment Limited on behalf of the Group which have not been timely repaid to the Group during the year ended December 31, 2020, which bears annual interest rate of 2.25% and were fully received by the Group in 2020.

(2) Directors' loans amounted to RMB2,837 thousand were fully repaid, together with interest, during the year ended December 31, 2020.

(vii) Outsourcing expense

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Chengdu Weimei Interactive Technology Co., Ltd	**1,905**	–

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year end balances with related parties

(i) Trade receivables from related parties

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
G-bits Group	**8,989**	34,936

The above balances with related parties were mainly denominated in RMB and USD. They were unsecure, trade in nature, non-interest bearing and repayable to the Group on demand.

(ii) Trade payables to related parties

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Commissions charged by game developers		
Shenzhen Hot Zone Network Technology Co., Ltd.	**192**	805
Chengdu Weimei Interactive Technology Co., Ltd	**33**	311
G-bits Group	**62**	–
Marketing and promotion		
Guangzhou Jodo Information and Technology Co., Ltd.	**625**	3,624
G-bits Group	**1,604**	2,740
Total	**2,516**	7,480

The above balances with related parties were mainly denominated in RMB. They were unsecure, trade in nature, non-interest bearing and repayable on demand.

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year end balances with related parties (continued)

(iii) Prepayments to related parties

	As at December 31,	
	2021 **RMB'000**	2020 RMB'000
Prepayments for marketing and promotion services		
G-bits Group	–	5,425
Prepayments for sharing of proceeds		
G-bits Group	**566**	–
Shenzhen Jishiwu Technology Co., Ltd.	**10,988**	1,000
Prepayments for game licenses		
Shenzhen Jishiwu Technology Co., Ltd.	**4,057**	–
G-bits Group	**1,698**	–
	17,309	6,425

The above balances with related parties were mainly denominated in RMB. They were unsecure, trade in nature and non-interest bearing.

(iv) Other receivables from related parties

	As at December 31,	
	2021 **RMB'000**	2020 RMB'000
Non-trade		
Rental and other deposits *(1)*		
G-bits Group	**289**	343

(1) According to the leasing agreement, the rental deposits will be repaid by G-bits upon expiry of the leasing agreement.

36 INVESTMENT IN SUBSIDIARIES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Investment in subsidiaries	**3,323,609**	–

In May 2021, to reflect the onshore shareholding structure of QC Digital, 9,530,575 ordinary shares of the Company with fair value of RMB2,313 million (Note 24) were allotted and issued to 9 offshore ordinary shareholders, 4,739,938 redeemable and convertible preferred shares ("Series A Preferred Shares") of the Company with fair value of RMB1,028 million, were issued to Series A investors (Note 29). The investments in subsidiaries represented the fair value of the QC Digital acquired by the Company upon completion of the Reorganization amounting to RMB3,324 million.

37 CONTINGENCIES

The Group did not have any material contingent liabilities as at December 31, 2020 and 2021.

38 SUBSEQUENT EVENTS

On January 7, 2022, following the partial exercise of over-allotment option, the Company issued 6,330,500 shares at HKD11.20 per share and raised gross proceeds of approximately HKD71 million (equivalent to RMB58 million). The net proceeds was approximately HKD68 million (equivalent to RMB56 million) after deducting listing expenses directly relating to the share issuance.

39 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at December 31, 2021 RMB'000
ASSETS	
Non-current assets	
Investment in subsidiaries	3,323,609
	3,323,609
Current assets	
Prepayments and other assets	762,775
Short-term investments measured at fair value through profit or loss	153,182
Cash and cash equivalents	222,668
	1,138,625
Total assets	4,462,234
EQUITY	
Share capital	44
Share premium	5,151,253
Other reserves	8,439
Accumulated losses	(739,456)
Total equity	4,420,280
LIABILITIES	
Current liabilities	
Other payables and accruals	41,954
Total liabilities	41,954
Total equity and liabilities	4,462,234

The balance sheet of the Company was approved by the Board of Directors on 24 March 2022 and was signed on its behalf.

Yang Xu
Director

Huang Zhiqiang
Director

39 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
As at January 1, 2021	–	
Loss for the year	–	(739,456)
Currency translation differences	8,439	–
As at December 31, 2021	8,439	(739,456)

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements, is set out below:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	**1,105,816**	1,226,920	88,704	98,421
Gross profit	**812,599**	942,355	68,737	76,751
Operating profit	**337,150**	119,428	25,566	26,229
(Loss)/profit before income tax	**(401,265)**	113,316	20,654	26,276
Income tax benefit/(expenses)	**32,627**	(9,577)	(1,029)	(1,416)
(Loss)/profit for the year	**(368,638)**	103,739	19,625	24,860
(Loss)/profit attributable to Equity holders of the Company	**(367,231)**	103,739	19,625	24,860
(Loss)/earnings per share attributable to equity holders of the Company Basic and diluted (RMB)	**(0.96)**	10.88	2.06	2.61

CONDENSED CONSOLIDATED BALANCE SHEET

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Non-current assets	**253,020**	106,776	40,545	34,259
Current assets	**1,615,883**	628,045	189,364	100,899
Total assets	**1,868,903**	734,821	229,909	135,158
Non-current liabilities	**22,735**	95,883	82,667	1,685
Current liabilities	**199,833**	424,735	33,823	39,679
Total liabilities	**222,568**	520,618	116,490	41,364
Net assets	**1,646,335**	214,203	113,419	93,794

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

"Alibaba"	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, the ordinary shares of which are listed on the Main Board of the Stock Exchange with the Stock Code: 9988 and its American Depositary Shares (each representing eight ordinary shares) are listed for trading on the New York Stock Exchange under the symbol "BABA"
"Alibaba Lingxi"	Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司), a company incorporated under the laws of the PRC with limited liability
"Alibaba Qookka"	Qookka Entertainment Limited (formerly known as Ejoy.com Limited), a company incorporated in Hong Kong with limited liability on February 28, 2012
"ARPPU" or "average revenue per paying user"	average revenue per month per paying user, which is calculated by (i) dividing our revenue from a game for a specified period by the total MPUs of such game for that period, or (ii) dividing our total game revenue for a specified period by the aggregate of the total MPUs of all of our games for that period, as applicable.
"Audit Committee"	the audit committee of the Board
"average MAUs"	calculated by dividing (i) the total MAUs of a game, or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game's data before its official launch
"average MPUs"	calculated by dividing (i) the MPUs of a game, or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game's data before its official launch
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company"	Qingci Games Inc. (青瓷游戏有限公司), an exempted company incorporated in the Cayman Islands with limited liability on March 12, 2021 and whose Shares are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Consolidated Financial Statements"	the audited consolidated financial statements of the Group
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, WFOE, QC Digital and the Registered Shareholders
"Director(s)"	the director(s) of our Company
"G-bits"	G-bits Network Technology (Xiamen) Co., Ltd. (廈門吉比特網絡技術股份有限公司), a company incorporated in the PRC with limited liability on March 26, 2004 and is listed on the Shanghai Stock Exchange under the stock code: 603444, a substantial shareholder of the Company
"Global Offering"	has the meaning ascribed to it under the Prospectus
"Group", "our Group", "the Group", "we", "us", or "our"	the Company and its subsidiaries from time to time
"Guangxi Tencent"	Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司), a company incorporated in the PRC with limited liability
"HK dollar" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HK Kunpan"	Hongkong Kunpan Co., Limited (香港坤磐有限公司), a company incorporated in Hong Kong with limited liability on December 16, 2016, and an indirect wholly-owned subsidiary of G-bits
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
"Latest Practicable Date"	13 April 2022, being the latest practicable date for ascertaining certain information for inclusion in this report
"Listing"	the listing of Shares on the Main Board of the Stock Exchange on December 16, 2021
"Listing Date"	December 16, 2021 being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Main Board"	the Main Board of the Stock Exchange
"MAU(s)"	monthly active users, which represents the number of active users during a specified calendar month
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MPU(s)"	monthly paying users, which represents the number of paying players during a specified calendar month
"PRC" or "China"	the People's Republic of China, excluding, for the purposes of this report, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
"PRC Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, namely QC Digital and its respective subsidiaries
"Prospectus"	the prospectus issued by the Company on December 6, 2021 in connection with the Hong Kong public offering of the Shares
"QC Digital"	QC-Game Digital Technology (Xiamen) Co., Ltd.* (廈門青瓷數碼技術有限公司), a company incorporated in the PRC with limited liability on March 1, 2012
"Registered Shareholders"	G-bits, Xiamen Sealand, Wofan Qihang, Guangxi Tencent, Alibaba Lingxi, Shanghai Hode, Mr. Yang Xu, Mr. Huang Zhiqiang, Mr. Liu Siming, Mr. Zeng Xiangshuo, Mr. Wei Shumu, Mr. Ye Jiting and Mr. Lin Yiwei
"Reporting Period"	twelve months from January 1, 2021 to December 31, 2021
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Hode"	Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司), a company incorporated in the PRC with limited liability
"Shareholder(s)"	holder(s) of Share(s)
"Shares"	ordinary share(s) in the capital of the Company with nominal value of US$0.0001 each

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"WFOE"	QC Interactive Technology Co., Ltd.* (廈門青瓷互動科技有限公司), a wholly foreign-owned enterprise established in the PRC on May 17, 2021 by QC HK Limited, an indirect wholly-owned subsidiary of our Company
"Wofan Qihang"	Xiamen Wofanqihang Venture Capital Partnership (Limited Partnership)* (廈門蝸帆起航創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on December 11, 2020, a substantial shareholder of the Company
"Xiamen Sealand"	Xiamen Sealand Capital Nuts Venture Investment Partnership (Limited Partnership)* (廈門國海堅果創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on May 6, 2013, a shareholder of the Company

* *For identification purpose only*

青瓷游戏
QINGCI GAMES