



Zengame Technology Holding Limited 禪遊科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2660



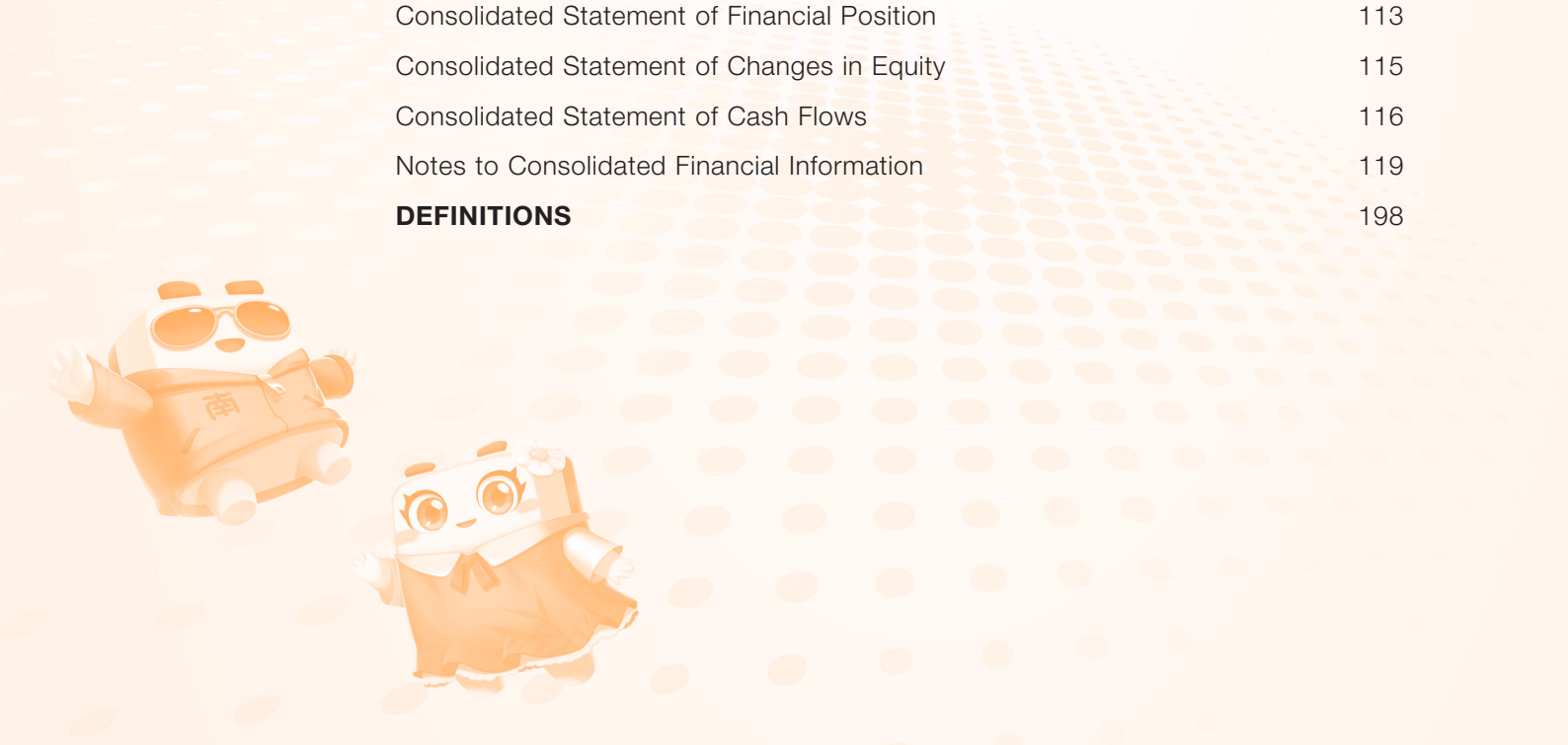
2021

ANNUAL REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Sheng (叶升)
(Chairman and Chief Executive Officer)

Mr. Yang Min (楊民)
(Vice Chairman and Chief Technology Officer)

Non-executive Director

Ms. Fu Hao (付郝)

Independent Non-executive Directors

Mr. Jin Shuhui (金書匯)

Mr. Mao Zhonghua (毛中華)

Mr. Yang Yi (陽翼)

AUDIT COMMITTEE

Mr. Jin Shuhui (金書匯) (Chairman)

Mr. Mao Zhonghua (毛中華)

Mr. Yang Yi (陽翼)

REMUNERATION COMMITTEE

Mr. Yang Yi (陽翼) (Chairman)

Mr. Ye Sheng (叶升)

Mr. Mao Zhonghua (毛中華)

NOMINATION COMMITTEE

Mr. Ye Sheng (叶升) (Chairman)

Mr. Mao Zhonghua (毛中華)

Mr. Yang Yi (陽翼)

COMPANY SECRETARY ^(Note)

Ms. Li Yan Wing Rita (李昕穎)

AUTHORIZED REPRESENTATIVES

Mr. Yang Min (楊民)

Ms. Li Yan Ming Rita (李昕穎)

HONG KONG LEGAL ADVISERS

Morgan, Lewis & Bockius
Suites 1902-09, 19th Floor
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

AUDITORS

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Rooms 1304-06
Changhong Science and Technology Mansion
Keji South 12 Road
Science and Technology Park
Nanshan District, Shenzhen
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 2012, Level 20
Millennium City 2
378 Kwun Tong Road, Kwun Tong
Kowloon, Hong Kong

Note: Mr. Zhang Yong has been one of the joint company secretaries of the Company until he has resigned with effect from 25 June 2021.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
Ping An Bank Co., Ltd

COMPANY WEBSITE

<http://www.zen-game.com>

STOCK CODE

2660

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2017 RMB'000 | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2021 RMB'000 |
|---------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Revenue | 459,724 | 554,950 | 662,100 | 742,506 | 1,473,958 |
| Gross profit | 157,932 | 247,077 | 324,953 | 364,559 | 905,375 |
| Profit before tax | 74,063 | 121,020 | 177,712 | 237,188 | 598,836 |
| Profit for the year | 66,396 | 108,809 | 160,519 | 220,968 | 500,343 |

CONDENSED CONSOLIDATED BALANCE SHEET

| | 2017 RMB'000 | 2018 RMB'000 | 2019 RMB'000 | 2020 RMB'000 | 2021 RMB'000 |
|-------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Total assets | 327,584 | 334,382 | 739,991 | 856,134 | 1,487,844 |
| Total liabilities | 105,176 | 81,912 | 144,676 | 59,527 | 262,622 |
| Total equity | 222,408 | 252,470 | 595,315 | 796,607 | 1,225,222 |

FINANCIAL HIGHLIGHTS

| | For the year ended 31 December | | Year-on-Year Change* |
|--|-----------------------------------|-------------------|-------------------------|
| | 2021 (RMB'000) | 2020 (RMB'000) | % |
| Revenue | 1,473,958 | 742,506 | 98.5 |
| Gross profit | 905,375 | 364,559 | 148.3 |
| Gross profit margin (%) | 61.4 | 49.1 | |
| Profit for the period | 500,343 | 220,968 | 126.4 |
| Net profit margin (%) | 33.9 | 29.8 | |
| Non-HKFRS adjusted net profit** | 503,003 | 223,217 | 125.3 |
| Earnings per Share (expressed in RMB per Share) | 0.49 | 0.22 | 122.7 |
| Final dividend per Share (expressed in HKD per Share) | 0.15 | 0.06 | 150.0 |

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

** Non-HKFRS adjusted net profit was derived from the profit for the year excluding Share-based compensation.

OPERATIONAL HIGHLIGHTS

| | For the year ended 31 December | |
|-------------------------------|-----------------------------------|----------------|
| | 2021 ('000) | 2020 ('000) |
| All Games | | |
| Cumulative registered players | 1,301,442 | 1,090,674 |
| MAU | 43,237 | 60,466 |
| DAU | 6,890 | 7,906 |
| MPU (Virtual items) | 951 | 649 |
| ARPPU of virtual items (RMB) | 88 | 35 |
| Card and Board Games | | |
| Cumulative registered players | 1,034,274 | 845,754 |
| MAU | 40,420 | 51,964 |
| DAU | 6,724 | 7,248 |
| MPU (Virtual items) | 940 | 629 |
| ARPPU of virtual items (RMB) | 81 | 31 |
| Other Games | | |
| Cumulative registered players | 267,168 | 244,920 |
| MAU | 2,817 | 8,502 |
| DAU | 166 | 658 |
| MPU (Virtual items) | 11 | 19 |
| ARPPU of virtual items (RMB) | 262 | 183 |



CHAIRMAN'S STATEMENT

I am pleased to present the audited annual results of the Group for the year ended 31 December 2021 to our Shareholders.

In 2021, the mobile game industry in the PRC developed towards a stock-based market, and the overall market scale increased by 7.6% year-on-year to RMB225.538 billion. Game players' demand for game quality and product experience has significantly increased, promoting the mobile game developers to constantly improve their capabilities for game product development and operation. Hence, premium mobile game operators still have a robust business performance, supporting the steady and positive development of the industry.

On the other hand, the game industry experienced pressures from the strengthened regulatory policies in 2021. Various tightened policies launched by regulatory authorities regulated a healthy industry development. As the anti-monopoly supervision gradually became normal, coupled with the marco planning of the digital economy industry, only game operators equipped with strong organization, prompt adjustment and adaptability can be outstanding and achieve stable development in the long run.

As a leading mobile game developer and operator in the PRC, we closely followed the changing trends of market and user demand, while embracing new media channel trends such as short clips and livestreaming. We focused on the innovation, research and development and operation of high-quality card and board and casual games and established a top leisure entertainment platform and community. Since our listing in 2019, our performance maintained steady growth, with the CAGR for revenue and the net profit in the past three years achieved 38.5% and 66.3%, respectively. Our outstanding performance was attributable to the efforts of our team members as they always kept up with high sensitivity in observing market demand, adhered to a pragmatic and proactive approach in constant product innovation and improved game quality as well as user experience. The Fingertip Sichuan Mahjong (指尖四川麻將), our top-selling board game product achieved significant breakthrough during the year ended 31 December 2021 by achieving top 2 on the iOS bestselling board games in China and top 1 for livestreaming card and board games on Douyin, which was well-liked by a majority of users; while Fight the Landlord (禪遊鬥地主) series, another classic top-selling game product, was also highly popular on the market, achieved top 10 on the iOS bestselling board games in China and top 3 for livestreaming board game products on Douyin.

2021 was a key year for the Group to achieve a developmental breakthrough. In terms of financial performance, as the Group constantly worked on innovation of its business and achieved breakthroughs in new media channels during the year, our overall revenue increased from approximately RMB742.5 million for the year ended 31 December 2020 to approximately RMB1.5 billion for the year ended 31 December 2021, representing an increase of approximately 98.5%. Our net profit has increased from approximately RMB221.0 million for the year ended 31 December 2020 to approximately RMB500.3 million for the year ended 31 December 2021, representing an increase of approximately 126.4%. Our adjusted net profit, excluding the Share-based payments, increased from approximately RMB223.2 million for the year ended 31 December 2020 to approximately RMB503.0 million for the year ended 31 December 2021, representing an increase of approximately 125.3%.

In 2021, the Group further optimized its product portfolio, game innovation and promotion to increase user retention and in-game payment rate. As for the product portfolio, we reduced our investment in hyper-casual games and put more resources in major card and board games innovation and optimization, and we also worked on the development of more premium casual games. Our research and development operation team constantly adds new elements to existing products, allowing long life cycle products such as card and board games to meet changing market and user demand and be more long-lasting. On one hand, we add more innovative gameplay for the card and board games products, such as the launch of “additional flower tiles” for The Fingertip Sichuan Mahjong (指尖四川麻將), and “treasury cards for multiple winning chances”, “multiple combinations of cards”, and “card solitaire among four players” for Fight the Landlord (禪遊鬥地主). In addition, we launched quality special game effects with elements of traditional Chinese culture, bringing a brand new gaming experience for users. In addition, we tried some new approaches for promotion by enhancing promotion efforts in new media channels such as Douyin, Tencent Video, Kuaishou, Xigua and Toutiao to expand sources of new users and maintained user royalty. Such factors facilitated the growth of the game paying user number, and the revenue from ARPPU also increased significantly from RMB36 for last year to RMB88 during the year ended 31 December 2021.

In terms of platform research and development, we put continuous effort in developing the operation supporting platform and tools and achieved satisfactory results. We optimized the supporting systems such as a complete set of distribution tool system and the data analysis system, which can significantly improve the efficiency and effectiveness of game advertising. We have obtained 14 new game publication numbers in 2021. As of 31 December 2021, we possessed a cumulative total of 86 game publication numbers, 55 of which covering our card and board games and 31 of which covering our casual games. Due to the current development strategy and resources allocation of the Group, 36 games with publication numbers have not yet been in operation. The Group will start promoting our operations at any time as and when appropriate in the future.

In terms of regulatory supervision, we strive to ensure the compliance of relevant laws and regulations of all our game products. To cope with various regulations regarding the protection of minors launched domestically, we have timely embedded an identity verification system and reminders in our game products to prevent indulging. Our system can also automatically cover sensitive words and block inappropriate language and content. Meanwhile, we strictly ensured the full protection of users' personal data, and established prevention and control measures for personal data leakage, allowing every user to use our game products in a healthy, positive and compliant environment.



Chairman's Statement

Our mission is to become the premier leisure and entertainment platform and community, creating user a diverse, brilliant and new entertainment lifestyle by integrating both online and offline products. Looking ahead, 2022 will be a year of maintaining existing performance while striving for a breakthrough for Zengame. Generally, in terms of the direction of our game product development, we will continue to focus on classic card and board casual games both at home and abroad with constant product innovation and optimization and integration with new media and new technology. In China, we will continue to enhance localized operation capability and constantly update game products in operation, allowing users to continuously obtain quality gaming experience, hence maintaining our competitive edge in the domestic card and board games industry. As for overseas development, we will constantly explore new opportunities and focus on markets in Southeast Asia, Europe and the U.S. Leveraging on our extensive experience in product operation and new media promotion accumulated in the domestic card and board games sector, we will expand card and board games business in the overseas market. As for external investment, we will continue to cooperate with teams or companies that create synergies with the Group, catch market opportunities in a timely manner, and constantly expand business boundaries and new sectors.

In addition, having taken into account the performance of the Group for the financial year ended 31 December 2021, the Board has resolved to recommend the payment of a final dividend of HK\$0.15 per Share for the year ended 31 December 2021, with a total amount of approximately HK\$152.5 million.

Lastly, on behalf of the Board, I would like to express my gratitude to our Shareholders for their trust, partners for their support and all staff for their hard work.

Ye Sheng

Chairman of the Board, Executive Director and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading mobile game developer and operator in the PRC that closely follows the changing trends of market and user demand, while embracing new media channel trends such as short clips and livestreaming. We focus on the innovation, research and development and operation of high-quality card and board and casual games and established a top leisure entertainment platform and community. Many of our games are based on well-established classic card and board games and they have been widely welcomed by the users. The Group generated income through the sales of virtual items and in-game information service. In 2021, the mobile game industry in the PRC has entered a high-quality development channel from the stage of rapid growth, with many game manufacturers putting more focus on improving game product quality and upgrading player experience. Against such background, in 2021, the Group further optimized its product portfolio, game innovation and promotion strategies to increase user retention and in-game payment rate. As for product portfolio, we reduced our investment in hyper-casual games and put more resources in major card and board games innovation and optimization, and also worked on the development of more premium casual games. Our research and development operation team constantly add new elements to existing products, allowing long life cycle products such as card and board games to meet changing market and user demand and be more long-lasting. On one hand, we made substantial investment in product innovation of card and board games, such as launching competition mode and live telecast mode, adding innovative gameplay and quality special game effects with elements of traditional Chinese culture when players playing some special composition of cards or boards in our games, bringing brand new gaming experience for users. In addition, we added new gameplay for the card and board games to constantly enrich players' gaming experience, such as innovative rules including "additional flower tiles" for The Fingertip Sichuan Mahjong (指尖四川麻將), and "treasury cards for multiple winning chances", "multiple combinations of cards", and "card solitaire among four players" for Fight the Landlord (禪遊鬥地主). On the other hand, we reduced our investment in hyper-casual games and removed 15 games, which are mainly casual games and third-party games, in order to put more focus on the production of boutique games.

In 2021, in addition to maintaining the leading position of our Fight the Landlord series in the market, we have made great breakthroughs in our Mahjong series. The revenue generated from our board games has increased from approximately RMB64.4 million for the year ended 31 December 2020 to approximately RMB918.0 million for the year ended 31 December 2021, representing an increase of 13.3 times, making board games one of the Group's flagship products. The Fingertip Sichuan Mahjong (指尖四川麻將) was also highly popular and loved by players, and it had ranked top 2 on the iOS bestselling board games in China and top 1 for livestreaming card and board games on Douyin. In 2021, we launched seven new games, among which, three are card and board games and four are casual games. As at 31 December 2021, we had 53 self-developed games and 10 third-party games, among which 19 are card games, 28 are board games and 26 are other casual games, respectively.



Management Discussion and Analysis

In terms of business development, the Group optimized and enhanced the product experience of existing games, and at the same time expanded sources of new users and maintained user royalty by enhancing promotion efforts in new media channels such as Douyin, Tencent Video, Kuaishou, Xigua and Toutiao. As a result, the Group recorded an increase in the cumulative registered players in 2021. We had approximately 1.3 billion cumulative registered players for the year ended 31 December 2021 as compared with approximately 1.1 billion for the year ended 31 December 2020. In addition, the Group enriched the features of in-game virtual items. As a result, for the year ended 31 December 2021, the Group's revenue from sales of virtual items amounted to approximately RMB1.0 billion, representing an increase of approximately 3.07 times as compared with approximately RMB256.3 million for the year ended 31 December 2020, and our ARPPU of virtual items increased from approximately RMB36 for the year ended 31 December 2020 to approximately RMB88 for the year ended 31 December 2021.

In terms of financial performance, as the Group constantly worked on innovation and achieved breakthroughs in new media channels in 2021, our overall revenue increased from approximately RMB742.5 million for the year ended 31 December 2020 to approximately RMB1.5 billion for the year ended 31 December 2021, representing an increase of approximately 98.5%. With the increase of revenue, the cost of sales also increased considerably, from approximately RMB377.9 million for the year ended 31 December 2020 to approximately RMB568.6 million for the year ended 31 December 2021, representing an increase of 50.4%. Our net profit has increased from approximately RMB221.0 million for the year ended 31 December 2020 to approximately RMB500.3 million for the year ended 31 December 2021, representing an increase of approximately 126.4%. Our adjusted net profit, excluding the Share-based payments, increased from approximately RMB223.2 million for the year ended 31 December 2020 to approximately RMB503.0 million for the year ended 31 December 2021, representing an increase of approximately 125.3%.

In terms of platform research and development, we continued to invest in the operation supporting platform and tools and achieved satisfactory results. We optimised supporting systems such as a complete set of distribution tool system and the data analysis system, which can significantly improve the efficiency and effectiveness of game delivery. The Group has obtained 14 new game publication numbers in 2021. As at 31 December 2021, we possessed 86 game publication numbers, 55 of which covered our card and board games and 31 of which covered our casual games. Due to the current development strategy and resources allocation of the Group, 36 games with publication numbers have not yet been in operation. The Group will start promoting our operations at any time as and when appropriate in the future.

In terms of regulatory supervision, facing the more stringent and detailed regulatory policy adjustments, we have continued to strictly comply with the relevant laws and regulations. To protect the physical and mental health of game players, especially minors, we have long established an anti-addiction system for minors in accordance with the relevant laws and regulations and have incorporated this system into our games. Our system can also automatically cover sensitive words and block inappropriate language and content, so as to resist vulgar content such as erotica and violence. Meanwhile, we also strictly abide by relevant laws and regulations for security protection of online personal data and those relating to anti-gambling. We compiled internal policies for personal data protection, established prevention and control measures for personal data leakage, and strictly followed relevant laws and regulations to protect user privacy. We will closely monitor and follow up with any relevant new laws and regulations in the PRC, and update our legal compliance database and business processes in a timely manner to ensure that our business complies with the requirements of the latest laws and regulations.

FUTURE PROSPECTS

In 2022, the Group will continue to move forward following its positive development trend during the year ended 31 December 2021. We will mainly focus on the following strategies to continue our growth in the year of 2022:

- continuously strengthening our brand building and enhancing the word-of-mouth promotion of our brand, in addition to expanding promotion channels;
- increasing our effort in the innovation of existing card and board games by adding multi-element entertainment experiences;
- continuously exploring opportunities in overseas game markets and developing competitive products;
- pursuing opportunities to acquire or invest in teams which are compatible with our development strategies and continuously expanding our business boundaries and new markets; and
- continuously building a talented team with efficient learning capability and embracing a future of both uncertainties and opportunities with an open and focused attitude.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group operated self-developed games and third-party games. All of the games used a Free-to-Play model and the Group generated revenue through the sales of virtual items and in-game information service.

Sales proceeds of virtual items were initially recorded as contract liabilities on our consolidated statement of financial position and were then recognized as revenue in accordance with our revenue recognition policies. Revenue collected from the paying players of third-party games and the in-game information service are shared between the Group and the third-party game developers and the advertising platforms based on a pre-determined rate in accordance with the relevant agreements. The revenue generated from the sale of virtual items from third-party games and the in-game information service are both recognized on a net basis when the relevant services are provided.

The following table sets forth a breakdown of our revenue by business model for the years indicated:

| | For the year ended 31 December | | 2020 | | Year-on-Year |
|------------------------------------|--------------------------------|--------------|---------|-------|--------------|
| | 2021 | | | | Change |
| | RMB'000 | % | RMB'000 | % | % |
| Sales of virtual items | 1,043,038 | 70.8 | 256,345 | 34.5 | 306.9 |
| – Self-developed games | 1,034,814 | 70.2 | 244,797 | 33.0 | 322.7 |
| – Third-party games | 8,224 | 0.6 | 11,548 | 1.5 | -28.8 |
| In-game information service | 430,920 | 29.2 | 486,161 | 65.5 | -11.4 |
| Total | 1,473,958 | 100.0 | 742,506 | 100.0 | 98.5 |

The following table sets forth a breakdown of our revenue by game category for the years indicated:

| | For the year ended 31 December | | 2020 | | Year-on-Year |
|--------------|--------------------------------|--------------|---------|-------|--------------|
| | 2021 | | | | Change |
| | RMB'000 | % | RMB'000 | % | % |
| Card games | 517,868 | 35.1 | 490,863 | 66.1 | 5.5 |
| Board games | 918,032 | 62.3 | 64,397 | 8.7 | 1,325.6 |
| Other games | 38,058 | 2.6 | 187,246 | 25.2 | -79.7 |
| Total | 1,473,958 | 100.0 | 742,506 | 100.0 | 98.5 |

For the year ended 31 December 2021, the Group's total revenue was approximately RMB1.5 billion, representing an increase of approximately 98.5% from approximately RMB742.5 million for the year ended 31 December 2020. This increase was primarily due to the significant increase in revenue generated from the Group's sales of virtual items.

The Group's revenue derived from the sales of virtue items increased by 306.9% from approximately RMB256.3 million for the year ended 31 December 2020 to approximately RMB1.0 billion for the year ended 31 December 2021. On the other hand, the Group's revenue derived from in-game information service decreased by 11.4% from approximately RMB486.2 million for the year ended 31 December 2020 to RMB430.9 million for the year ended 31 December 2021. This was mainly due to the reduction of information service revenue from hyper-casual games.

Cost of Sales

The following table sets forth a breakdown of our cost of sales by nature for the years indicated:

| | For the year ended 31 December | | Year-on-Year Change % |
|-----------------------------|-----------------------------------|-------------------|-----------------------------|
| | 2021 (RMB'000) | 2020 (RMB'000) | |
| Payment channel costs | 150,294 | 70,496 | 113.2 |
| Distribution platform costs | 250,305 | 54,790 | 356.8 |
| Information service costs | 90,683 | 240,813 | -62.3 |
| New media costs | 61,359 | — | — |
| Others | 15,942 | 11,848 | 34.6 |
| Total | 568,583 | 377,947 | 50.4 |

For the year ended 31 December 2021, the cost of sales was approximately RMB568.6 million, representing an increase of approximately 50.4% from approximately RMB377.9 million for the year ended 31 December 2020. This was mainly attributable to the increases in payment channel costs and the profit sharing of the distribution platform brought by the increase in sales revenue, while the Company increased new media costs to expand its sales.

Gross Profit and Gross Profit Margin

Gross profit increased by 148.3% from approximately RMB364.6 million for the year ended 31 December 2020 to approximately RMB905.4 million for the year ended 31 December 2021, which was in line with the growth of the Group's business. The gross profit margin increased by 12.3% from 49.1% for the year ended 31 December 2020 to 61.4% for the year ended 31 December 2021. The increase in the gross profit margin was primarily due to the higher gross profit of the new media business than that for the traditional model.

Management Discussion and Analysis

The following table sets forth our gross profit and gross profit margin by business model for the years indicated:

| | For the year ended 31 December | | | |
|------------------------------------|--------------------------------|-----------------------------|----------------------------|-----------------------------|
| | 2021 | | 2020 | |
| | Gross Profit RMB'000 | Gross Profit Margin % | Gross Profit RMB'000 | Gross Profit Margin % |
| Sales of virtual items | | | | |
| — Self-developed games | 556,914 | 53.8 | 107,663 | 44.0 |
| — Third-party games | 8,224 | 100.0 | 11,548 | 100.0 |
| In-game information service | 340,237 | 79.0 | 245,348 | 50.5 |
| Total | 905,375 | 61.4 | 364,559 | 49.1 |

Other Income

Other income increased by 17.6% from approximately RMB27.3 million for the year ended 31 December 2020 to approximately RMB32.1 million for the year ended 31 December 2021. The increase was primarily due to the increases in bank interest income and fair value gains on financial assets at fair value through profit or loss.

Selling and Distribution Expenses

Selling and distribution expenses increased by 157.1% from approximately RMB68.3 million for the year ended 31 December 2020 to approximately RMB175.6 million for the year ended 31 December 2021. Such increase was primarily due to the increases in the promotion expenses for virtual items and the remuneration of salespersons.

Administrative Expenses

Administrative expenses increased by 109.8% from approximately RMB30.9 million for the year ended 31 December 2020 to approximately RMB64.8 million for the year ended 31 December 2021, primarily due to an increase of RMB29.7 million in employment benefits-related expenses and the increase in the depreciation of assets (including lease assets).

Research and Development Expenses

Research and development expenses increased by 71.9% from approximately RMB53.8 million for the year ended 31 December 2020 to approximately RMB92.5 million for the year ended 31 December 2021. The increase was primarily due to the increase in the remuneration of our research and development employees.

Other Expenses

Other expenses increased by 166.7% from approximately RMB1.2 million for the year ended 31 December 2020 to approximately RMB3.2 million for the year ended 31 December 2021. The increase was mainly due to the reversal of the impairment of trade receivables.

Finance Costs

Finance costs increased by 27.7% from approximately RMB0.5 million for the year ended 31 December 2020 to approximately RMB0.6 million for the year ended 31 December 2021. Such increase was primarily relating to interest on lease liabilities and interest on bank loans.

Income Tax Expense

The income tax expenses increased from approximately RMB16.2 million for the year ended 31 December 2020 to approximately RMB98.5 million for the year ended 31 December 2021, representing an increase of RMB82.3 million or approximately 507.2%. Such significant increase was mainly attributable to the increase in the Group's taxable income.

Profit for the year ended 31 December 2021

As a result of the above factors, the net profit of the Group was approximately RMB500.3 million for the year ended 31 December 2021, representing an increase of approximately 126.4% as compared with RMB221.0 million for the year ended 31 December 2020.

Non-HKFRS Measures – Adjusted Net Profit

The adjusted net profit for the year ended 31 December 2021, adjusted by Share-based compensation, was approximately RMB503.0 million, increased by 125.3% as compared to approximately RMB223.2 million for the year ended 31 December 2020.

The following table sets out the adjusted net profit as well as the calculation process based on non-HKFRS for the years ended 31 December 2021 and 2020:

| | For the year ended 31 December | |
|--------------------------|---|---------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Profit for the period | 500,343 | 220,968 |
| Add: | | |
| Share-based compensation | 2,660 | 2,249 |
| Adjusted net profit | 503,003 | 223,217 |

Management Discussion and Analysis

Liquidity and Capital Resources

The Group's total bank balances and cash increased from approximately RMB608.8 million as at 31 December 2020 to approximately RMB1.0 billion as at 31 December 2021. Such significant increase in total bank balances and cash during the year ended 31 December 2021 was primarily resulted from the increase in cash balance from operating profit.

As at 31 December 2021, current assets of the Group amounted to approximately RMB1.4 billion, primarily consisting bank balances and cash of approximately RMB1.0 billion and financial assets at fair value through profit or loss of approximately RMB101.1 million. Current liabilities of the Group amounted to approximately RMB237.5 million, primarily consisting other payables and accruals of approximately RMB101.2 million and trade payables and contract liabilities of approximately RMB74.2 million. As at 31 December 2021, the current ratio (the current assets to current liabilities ratio) of the Group was 6.0, as compared with 14.3 as at 31 December 2020.

As at 31 December 2021, the Group had borrowings amounting to approximately RMB9.1 million (31 December 2020: nil). In April 2021, the Group obtained a bank loan of RMB12.0 million at an interest rate of 0.65% above the one-year loan prime rate. The said loan will be due in April 2022.

As a result of the aforementioned borrowings, the gearing ratio is calculated by dividing total debt (being interest-bearing bank borrowings) by total equity. As at 31 December 2021, the gearing ratio was 0.7% (31 December 2020: nil).

Capital Expenditures

For the year ended 31 December 2021, the capital expenditures of the Group amounted to approximately RMB6.8 million, which were primarily used to purchase office facilities and office software.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2021.

Pledge of Assets

As at 31 December 2021, the Group did not pledge any assets.

Future Plan for Material Investments and Capital Assets

Save as disclosed in this annual report, the Group did not have other plans for material investments and capital assets.

Significant Investments, Acquisitions and Disposals

Save as disclosed in this annual report, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2021.

Foreign Exchange Risk Management

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.



DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law. The Group is a leading mobile game developer and operator in the PRC with special focus on card and board and other casual mobile games, and establishes a top leisure entertainment platform and community.

Details of the principal activities of the subsidiaries of the Company are set out in note 1 to the financial statements. An analysis of the Group's revenue and operating profit for the year ended 31 December 2021 is set out in the section headed "Management Discussion and Analysis" in this annual report.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal challenges and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Environmental, Social and Governance Report" in this annual report. In addition, a discussion on relationships with its key stakeholders is included in the section headed "Management Discussion and Analysis". The review and discussion form part of this directors' report.

RESULTS, DIVIDEND AND DIVIDEND POLICY

The consolidation results of the Group for the year ended 31 December 2021 are set out on pages 111 to 118 of this annual report.

The Board has resolved to recommend the payment of a final dividend of HK\$0.15 per Share for the year ended 31 December 2021. The total amount is HK\$152.5 million.

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions, operational needs, capital requirements and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year.

CLOSURE OF THE REGISTER OF MEMBERS

In order to ascertain the Shareholders' entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022, both days inclusive, during which period no transfer of Shares will be registered. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 23 May 2022.

In order to ascertain the Shareholders' entitlements to the proposed final dividend (subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Tuesday, 7 June 2022 to Thursday, 9 June 2022, both days inclusive, during which period no transfer of Shares will be registered. All Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 6 June 2022.

FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five financial years is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

TAX RELIEF AND EXEMPTION

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended 31 December 2021 are set out in note 13 to the consolidated financial statements on page 165 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2021 are set out in note 28 to the consolidated financial statements on page 179 of this annual report.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended 31 December 2021 are set out in the Consolidated Statement of Changes in Equity on page 115 of this annual report and in note 30 to the consolidated financial statements on pages 183 to 184 of this annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company had distributable reserves amounting to RMB58.8 million.

BORROWINGS

As at 31 December 2021, the Group had borrowings amounting to approximately RMB9.1 million (31 December 2020: nil). In April 2021, the Group obtained a bank loan of RMB12.0 million at an interest rate of 0.65% above the one year loan prime rate. The said loan will be due in April 2022.

PLEDGE OF ASSETS

As at 31 December 2021, the Group did not pledge any assets.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

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

SIGNIFICANT EVENTS AFTER THE YEAR END

The Group did not have any significant events after 31 December 2021 and up to the date of this annual report.

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised by the Company from the Listing (after deduction of the underwriting commissions in respect of the offering and other estimated expenses) were approximately HK\$206.5 million. As at 31 December 2021, a total amount of approximately HK\$197.2 million out of the net proceeds had been utilized by the Group. We have, and will continue to utilize the net proceeds from the Global Offering in accordance with the purposes set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 3 April 2019.

| Business Strategy | Net Proceeds from the Global Offering (RMB million) | Utilization as at 31 December 2021 (RMB million) | Unutilized Amount (RMB million) |
|---|---|--|---|
| Strengthening the Group's research and development capabilities | 64.4 | 64.4 | — |
| Funding promotional and marketing activities | 55.3 | 55.3 | — |
| Acquiring other card and board and casual mobile game developers and companies whose business as supplement the Group's | 27.6 | 27.6 | — |
| Funding the Group's expansion to overseas markets | 18.5 | 10.9 | 7.6 |
| Working capital and other general corporate purposes | 17.2 | 17.2 | — |
| Total | 183.0 | 175.4 | 7.6 |

Currently, the Company expects that the timeline for utilising the balance of the proceeds will generally be in line with that set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

DIRECTORS

The Directors of the Company for the year ended 31 December 2021 and up to the date of this annual report were:

Executive Directors

Mr. Ye Sheng (*Chairman and Chief Executive Officer*)

Mr. Yang Min (*Vice Chairman and Chief Technology Officer*)

Non-executive Director

Ms. Fu Hao

Independent Non-executive Directors

Mr. Jin Shuhui

Mr. Mao Zhonghua

Mr. Yang Yi

Biographical details of the Directors and the senior management of the Group are set out on pages 60 to 64 in this annual report.

CHANGE OF INFORMATION OF DIRECTORS

In accordance with Rule 13.51(B)(1) of the Listing Rules, the Company is required to disclose changes in information of Directors subsequent to the date of the 2021 interim report. Mr. Ye Sheng and Mr. Yang Min have both been appointed as a director of (i) Zen World Interactive Limited with effect from 11 October 2021; and (ii) ZEN WORLD INTERACTIVE (SINGAPORE) PTE. LTD. with effect from 10 December 2021, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company, pursuant to which they have agreed to act as the executive Directors for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The non-executive Director has entered into a letter of appointment with the Company, pursuant to which she has agreed to act as the non-executive Director for an initial fixed term of one year commencing from the date of appointment and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director to the Company or with immediate effect following the notice in writing served by the Company to the non-executive Director.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company, pursuant to which they have agreed to act as the independent non-executive Directors for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by the independent non-executive Director to the Company or with immediate effect following the notice in writing served by the Company to the independent non-executive Director.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors has entered into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

CONTRACT WITH CONTROLLING SHAREHOLDERS

No contract of significance was entered into between the Company or any of its subsidiaries and the controlling shareholders of the Company or any of its subsidiaries during the year ended 31 December 2021 or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries was entered into during the year ended 31 December 2021 or subsisted at the end of the year.

DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, 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 year ended 31 December 2021.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the remuneration committee of the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in note 8 and note 9 to the consolidated financial statements on pages 158 to 159 and page 160 of this annual report.

For the year ended 31 December 2021, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended 31 December 2021.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2021, by the Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2021, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

DEED OF NON-COMPETITION

Each of the Controlling Shareholders entered into the deed of non-competition (the “**Deed of Non-competition**”) in favour of the Company, pursuant to which the Controlling Shareholders have irrevocably, jointly and severally given certain non-competition undertakings to the Company. Details of the Deed of Non-competition are set out in the section headed “Relationship with Controlling Shareholders – Deed of Non-competition” in the Prospectus.

The Controlling Shareholders confirmed that they have complied with the Non-competition Deed for the year ended 31 December 2021. The independent non-executive Directors have conducted such review for the year ended 31 December 2021 and also reviewed the relevant undertakings and are satisfied that the Deed of Non-competition has been fully complied with.

MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended 31 December 2021.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the year ended 31 December 2021.

LOAN AND GUARANTEE

During the year ended 31 December 2021, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the Controlling Shareholders or their respective connected persons.

RSU SCHEME

The Board has adopted the RSU Scheme on 9 October 2018 with a view to incentivize the directors, senior management and employees of the Group for their contribution to the Group and to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group.

We have appointed The Core Trust Company Limited as the trustee (the **"Trustee"**) to assist with the administration and vesting of the RSUs granted pursuant to the RSU Scheme. A total of 62,561,080 Shares were issued to Hezhong Power Limited (the **"RSU Nominee"**), who hold the shares for the benefit of eligible participants pursuant to the RSU Scheme. No further Shares will be allotted and issued to the RSU Nominee or the trustee for the purpose of the RSU Scheme (other than pursuant to subdivision, reduction, consolidation, reclassification or reconstruction of the share capital of the Company in accordance with the RSU Scheme).

The RSU Scheme shall be valid and effective for a period of ten (10) years, commencing on the date of the first grant of the RSUs, being 1 June 2016 (unless it is terminated earlier in accordance with its terms).

As at the date of 31 December 2021, RSUs in respect of 62,561,080 underlying Shares, representing approximately 6.15% of the total issued Shares as at 31 December 2021, had been granted to 24 selected persons pursuant to the RSU Scheme.

RSUs granted to the directors of the PRC Operating Entities and the senior management of the Group

As at 31 December 2021, RSUs in respect of 15,188,148 Shares, 12,148,084 Shares, 3,037,021 Shares, 7,860,563 Shares and 6,560,000 Shares were granted to five directors of the PRC Operating Entities, Mr. Zhu Weijie, Ms. Chen Yan, Ms. Xiong Mi, Mr. Kang Yonghong and Ms. Huang Haiyan (who has resigned as the chief financial officer of the Company with effect from 29 October 2021), respectively. The vesting period of the RSUs granted to each of Mr. Zhu Weijie, Ms. Chen Yan, Ms. Xiong Mi and Mr. Kang Yonghong was 48 months as to 25% each on 1 June 2017, 1 June 2018, 1 June 2019 and 1 June 2020, respectively while the vesting period of the RSUs granted to Ms. Huang Haiyan was 24 months as to 50% each on 1 June 2019 and 1 June 2020, respectively.

As at 31 December 2021, RSUs in respect of 1,518,511 Shares were granted to our senior management member, Mr. Zhang Yong (who has resigned as a joint company secretary with effect from 25 June 2021), with a vesting period of 48 months as to 25% each on 1 June 2019, 1 June 2020, 1 June 2021 and 1 June 2022, respectively.

RSUs granted to other participants

As at 31 December 2021, RSUs in respect of (i) 22,818,268 Shares were granted to 16 of our employees with a vesting period of 72 months as to 10% each on 1 June 2017 and 1 June 2018, 20% each of 1 June 2019, 1 June 2020, 1 June 2021 and 1 June 2022, respectively; and (ii) 1,291,048 Shares were granted to three of our employees with a vesting period of 48 months as to 25% each on 1 June 2019, 1 June 2020, 1 June 2021 and 1 June 2022, respectively.

During the year ended 31 December 2021, RSUs in respect of 379,627 Shares were lapsed according to the rules of the RSU Scheme. As at 31 December 2021, RSUs in respect of 55,039,005 Shares, representing approximately 5.41% of the total issued Shares as at 31 December 2021 remained to be held by the RSU Nominee.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme conditionally approved by the resolution of the shareholders of the Company on 28 March 2019. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules. The details of the Share Option Scheme are as follows:

1. The purpose of the Share Option Scheme To give the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.
2. The participants of the Share Option Scheme
 1. Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group and any employee of the Group;
 2. Direct or indirect shareholder of any member of the Group;
 3. Supplier of goods or services to any member of the Group;
 4. Customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
 5. Person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group;
 6. Associate of any of the persons mentioned above; and
 7. Any person involved in the business affairs of the Company whom the Board determines to be appropriate to participate in the Share Option Scheme.

3. The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of this annual report

The new Shares which may be issued by the Company upon exercise of all share options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 100,000,000 Shares, representing 9.83% of the issued Shares as at the date of this annual report.
4. The maximum entitlement of each participant under the Share Option Scheme

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue
5. The period within which the securities must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by the Board at its absolute discretion and notified by the Board to each grantee of the option (the “**Grantee**”) as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.
6. The minimum period, if any, for which an option must be held before it can be exercised

Subject to the terms and conditions as the Board may determine (including the terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the Grantee before the option can be exercised.
7. The amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

An offer of the grant of an option shall remain open for acceptance by the eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the Grantee together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date. Such remittance shall in no circumstances be refundable.

8. The basis of determination of the exercise price
- The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever the highest of:
- (i) the nominal value of a Share; and
 - (ii) the closing price of a Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; and
 - (iii) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.
9. The remaining life of the Share Option Scheme
- The Share Option Scheme remains in force until 27 March 2029.

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2021 by category of grantees were as follows:

| Category of grantees | Date of grant | Exercise price per Share | Closing price immediately before the date of grant | Outstanding at 1 January 2021 | Granted during the year ended 31 December 2021 | Exercised during the year ended 31 December 2021 | Lapsed/ | Outstanding at 31 December 2021 |
|----------------------|---------------|--------------------------|--|-------------------------------|--|--|--|---------------------------------|
| | | | | | | | cancelled during the year ended 31 December 2021 | |
| Directors | | | | | | | | |
| Mr. Ye Sheng | 3 June 2021 | HK\$1.29 | HK\$1.24 | – | 2,000,000 | – | – | 2,000,000 |
| Mr. Yang Min | 3 June 2021 | HK\$1.29 | HK\$1.24 | – | 2,000,000 | – | – | 2,000,000 |
| Employees | 3 June 2021 | HK\$1.29 | HK\$1.24 | – | 12,000,000 | – | (610,000) | 11,390,000 |
| Total | | | | – | 16,000,000 | – | (610,000) | 15,390,000 |

For share options granted on 3 June 2021, all of them are with the same exercise period commencing from the relevant vesting date and ending 10 years after the date of grant.

| Vesting date | Percentage of share options to vest |
|--------------|--|
| 3 June 2022 | 25% of the total number of share options granted |
| 3 June 2023 | 25% of the total number of share options granted |
| 3 June 2024 | 25% of the total number of share options granted |
| 3 June 2025 | 25% of the total number of share options granted |

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2021.

SHARE AWARD SCHEME

The Company adopted a share award scheme on 24 June 2021 (the “**Adoption Date**”) to recognize the contributions by certain selected participants, encourage and retain such individuals to work with the Company, provide additional incentive for them to achieve their performance goals, attract suitable personnel for further development of the Group and motivate them to maximize the value of the Company for the benefit of both the selected participants and the Company.

The administration committee of the Share Award Scheme may, from time to time, determine the number of restricted shares to be granted and at its absolute discretion select any participant to be a selected participant under the Share Award Scheme. The restricted shares shall be either (i) allotted and issued by the Company, by using the general mandate granted to the Board by the shareholders of the Company in the annual general meeting of the Company from time to time, unless separate shareholders’ approval is obtained in a general meeting of the Company; or (ii) acquired by The Core Trust Company Limited, as the trustee (“**Trustee**”) from the open market by utilising the Company’s resources provided to the Trustee, subject to the absolute discretion of the administration committee or the Trustee.

It is intended that the restricted shares under the Share Award Scheme will be offered to the selected participants for no consideration subject to the compliance with the relevant laws and regulations, and certain conditions to be decided by the administration committee at the time of grant of the restricted shares under the Share Award Scheme.

The maximum total number of restricted shares which may be granted under the Share Award Scheme shall not exceed five (5)%, and the maximum total number granted to an individual selected participant shall not exceed one (1)%, of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination of the terms of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

During the year ended 31 December 2021, the Trustee purchased 20,802,000 Shares for the purpose of the Share Award Scheme and no restricted shares were granted, vested or lapsed under the Share Award Scheme.

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

As at 31 December 2021, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

(i) Long position in the Company

| Name | Capacity/Nature of interest | Number of Shares | Approximate percentage of shareholding in the Company ⁽⁵⁾ |
|--------------|---|------------------|--|
| Mr. Ye Sheng | Founder of a discretionary trust ⁽¹⁾ | 231,712,000 | 22.77% |
| | Beneficial owner ⁽²⁾ | 2,000,000 | 0.20% |
| Mr. Yang Min | Founder of a discretionary trust ⁽³⁾ | 197,604,100 | 19.42% |
| | Beneficial owner ⁽⁴⁾ | 2,000,000 | 0.20% |

Notes:

- (1) Sky-zen Capital Limited is owned as to (i) 80% by YS Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Ye Sheng as the settlor and beneficiary; and (ii) 20% by Mr. Ye Sheng. Accordingly, Mr. Ye Sheng is deemed to be interested in all the Shares held by Sky-zen Capital Limited.
- (2) On 3 June 2021, 2,000,000 share options were granted to Mr. Ye Sheng under the Share Option Scheme. Upon full exercise of such options, Mr. Ye Sheng will be beneficially interested in 2,000,000 Shares.
- (3) J&L Y Limited is owned as to (i) 80% by Y&J Family Trust, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Yang Min as the settlor and beneficiary; and (ii) 20% by Mr. Yang Min. Accordingly, Mr. Yang Min is deemed to be interested in all the Shares held by J&L Y Limited.
- (4) On 3 June 2021, 2,000,000 share options were granted to Mr. Yang Min under the Share Option Scheme. Upon full exercise of such options, Mr. Yang Min will be beneficially interested in 2,000,000 Shares.
- (5) The percentage is calculated based on the total number of 1,017,444,000 Shares in issue as at 31 December 2021.

(ii) Long position in associated corporation**Zen-Game Shenzhen**

| Name | Capacity/Nature of interest | Number of Shares | Approximate percentage of shareholding in the Group |
|--------------|------------------------------------|-------------------------|--|
| Mr. Ye Sheng | Interest of spouse ⁽¹⁾ | 13,326,923 | 24.68% |
| Mr. Yang Min | Interest of spouse ⁽²⁾ | 11,695,054 | 21.65% |

Notes:

- (1) Ms. Xie Yingying, the spouse of Mr. Ye Sheng, holds 99% equity interest of Shenzhen Tianchan Technology Co., Ltd. (深圳市天禪科技有限公司) ("**Tianchan**") and Mr. Ye Sheng is thus deemed to be interested in the shares directly held by Tianchan and indirectly held by Ms. Xie Yingying through Tianchan in Zen-Game Shenzhen.
- (2) Ms. Jiang Qian, the spouse of Mr. Yang Min, holds 90% equity interest of Shenzhen Dingyi Technology Co., Ltd. (深圳市鼎翌科技有限公司) ("**Dingyi**") and Mr. Yang Min is thus deemed to be interested in the shares directly held by Dingyi and indirectly held by Ms. Jiang Qian through Dingyi in Zen-Game Shenzhen.

Save as disclosed above, as at 31 December 2021, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, 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 to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under 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 SECURITIES

As at 31 December 2021, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

(i) Long position in the Company

| Name | Capacity/Nature of interest | Number of Shares | Approximate percentage of shareholding in the Group ⁽¹¹⁾ |
|---|---|------------------|---|
| Sky-zen Capital Limited ⁽¹⁾ | Beneficial owner | 231,712,000 | 22.77% |
| Ms. Xie Yingying ⁽²⁾ | Interest of spouse | 233,712,000 | 22.97% |
| YS Limited ⁽¹⁾ | Nominee for another person (other than a bare trustee) | 231,712,000 | 22.77% |
| J&L Y Limited ⁽³⁾ | Beneficial owner | 197,604,100 | 19.42% |
| Ms. Jiang Qian ⁽⁴⁾ | Interest of spouse | 199,604,100 | 19.62% |
| Y&J Family Limited ⁽³⁾ | Nominee for another person (other than a bare trustee) | 197,604,100 | 19.42% |
| D Fun Limited ⁽⁵⁾ | Beneficial owner | 165,201,300 | 16.24% |
| Ms. Zhang Wei ⁽⁵⁾ | Founder of a discretionary trust | 165,201,300 | 16.24% |
| Mr. Zeng Liqing ⁽⁶⁾ | Interest of spouse | 165,201,300 | 16.24% |
| Bonaza Limited ⁽⁵⁾ | Nominee for another person (other than a bare trustee) | 165,201,300 | 16.24% |
| Playa Technology Limited ⁽⁷⁾ | Beneficial owner | 90,860,920 | 8.93% |
| Mr. Bao Zhoujia ⁽⁷⁾ | Founder of a discretionary Trust | 90,860,920 | 8.93% |
| BAO TRUST ⁽⁷⁾ | Nominee for another person (other than a bare trustee) | 90,860,920 | 8.93% |
| Hezhong Power Limited ⁽⁸⁾ | Nominee for another person (other than a bare trustee) | 56,106,568 | 5.51% |
| TCT (BVI) Limited | Other ⁽¹⁰⁾ | 231,712,000 | 22.77% |
| | Other ⁽¹⁰⁾ | 197,604,100 | 19.42% |
| | Other ⁽¹⁰⁾ | 165,201,300 | 16.24% |
| | Other ⁽¹⁰⁾ | 56,106,568 | 5.51% |
| | Other ⁽¹⁰⁾ | 11,062,000 | 1.09% |
| The Core Trust Company Limited | Trustee ⁽¹⁾ | 231,712,000 | 22.77% |
| | Trustee ⁽³⁾ | 197,604,100 | 19.42% |
| | Trustee ⁽⁵⁾ | 165,201,300 | 16.24% |
| | Trustee ⁽⁸⁾ | 56,106,568 | 5.51% |
| | Trustee ⁽⁹⁾ | 11,062,000 | 1.09% |

Notes:

- (1) Sky-zen Capital Limited is owned as to (i) 80% by YS Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Ye Sheng as the settlor and beneficiary; and (ii) 20% by Mr. Ye Sheng. Accordingly, YS Limited is deemed to be interested in all the Shares held by Sky-zen Capital Limited.
- (2) Ms. Xie Yingying is the spouse of Mr. Ye Sheng and she is thus deemed to be interested in all the Shares held by Mr. Ye Sheng, comprising (i) interest in 231,712,000 Shares in the capacity of the founder of a discretionary trust and (ii) interest in 2,000,000 Shares in the capacity of the beneficial owner, under the SFO.
- (3) J&L Y Limited is owned as to (i) 80% by Y&J Family Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Mr. Yang Min as the settlor and beneficiary; and (ii) 20% by Mr. Yang Min. Accordingly, Y&J Family Limited is deemed to be interested in all the Shares held by J&L Y Limited.
- (4) Ms. Jiang Qian is the spouse of Mr. Yang Min and she is thus deemed to be interested in all the Shares held by Mr. Yang Min, comprising (i) interest in 197,604,100 Shares in the capacity of the founder of a discretionary trust and (ii) interest in 2,000,000 Shares in the capacity of the beneficial owner, under the SFO.
- (5) D Fun Limited is owned as to (i) 80% by Bonaza Limited, a company wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of a discretionary trust established by Ms. Zhang Wei as the settlor and beneficiary; and (ii) 20% by D Zen Limited, a company wholly owned by Mr. Zeng Liqing. Accordingly, each of Bonaza Limited and Ms. Zhang Wei is deemed to be interested in all the Shares held by D Fun Limited.
- (6) Mr. Zeng Liqing is the spouse of Ms. Zhang Wei and he is thus deemed to be interested in all the Shares held by Ms. Zhang Wei under the SFO.
- (7) Playa Technology Limited is owned as to (i) 80% by BAO TRUST, a trust established by Mr. Bao Zhoujia as the settlor and trustee; and (ii) 20% by Mr. Bao Zhoujia. Accordingly, each of BAO TRUST and Mr. Bao Zhoujia is deemed to be interested in all the Shares held by Playa Technology Limited.
- (8) Hezhong Power Limited is wholly-owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee under the RSU Scheme.
- (9) Zen Employee Benefit Limited is wholly-owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee under the Share Award Scheme.
- (10) Certain Shares were held by Sky-zen Capital Limited (22.77%), J&L Y Limited (19.42%), D Fun Limited (16.24%), Hezhong Power Limited (5.51%) and Zen Employee Benefit Limited (1.09%), pursuant to certain discretionary trusts established, the RSU Scheme and the Share Award Scheme. Sky-zen Capital Limited, J&L Y Limited and D Fun Limited are held by YS Limited, Y&J Family Limited and Bonaza Limited (each a "Nominee"), respectively, as to 80%. Each Nominee, Hezhong Power Limited and Zen Employee Benefit Limited is wholly owned by TCT (BVI) Limited, which is in turn wholly owned by The Core Trust Company Limited, the trustee of the aforementioned discretionary trusts and the RSU Scheme and the Share Award Scheme.
- (11) The percentage is calculated based on the total number of 1,017,444,000 Shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the sections headed “RSU Scheme”, “Share Option Scheme” and “Share Award Scheme”, at no time during the year ended 31 December 2021 was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2021, the percentages of purchases from the Group’s largest supplier and five largest suppliers were 17.0% and 54.6%, respectively. The percentages of sales attributable to the Group’s largest customer and the five largest customers were 11.4% and 27.6%, respectively.

As far as the Directors are aware, none of the Directors, their close associates (as defined under the Listing Rules) nor any substantial shareholders has any beneficial interest in the five largest suppliers or customers of the Group.

EMPLOYEE REMUNERATION AND RELATIONS

As at 31 December 2021, the Group had approximately 490 employees (235 as at 31 December 2020). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. Remuneration of the Group’s employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. For the year ended 31 December 2021, the total remuneration expenses, including Share-based compensation expense, were approximately RMB172.0 million, representing an increase of 118.1% from RMB79.0 million for the year ended 31 December 2020, which was primarily due to a 70.2% increase in the average number of employees in 2021.

The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the year ended 31 December 2021.

RETIREMENT BENEFITS SCHEME

All of our employees are in PRC and they are members of the state-managed retirement benefits scheme operated by the PRC government. Our employees are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in note 2 to the consolidated financial statements in this annual report.

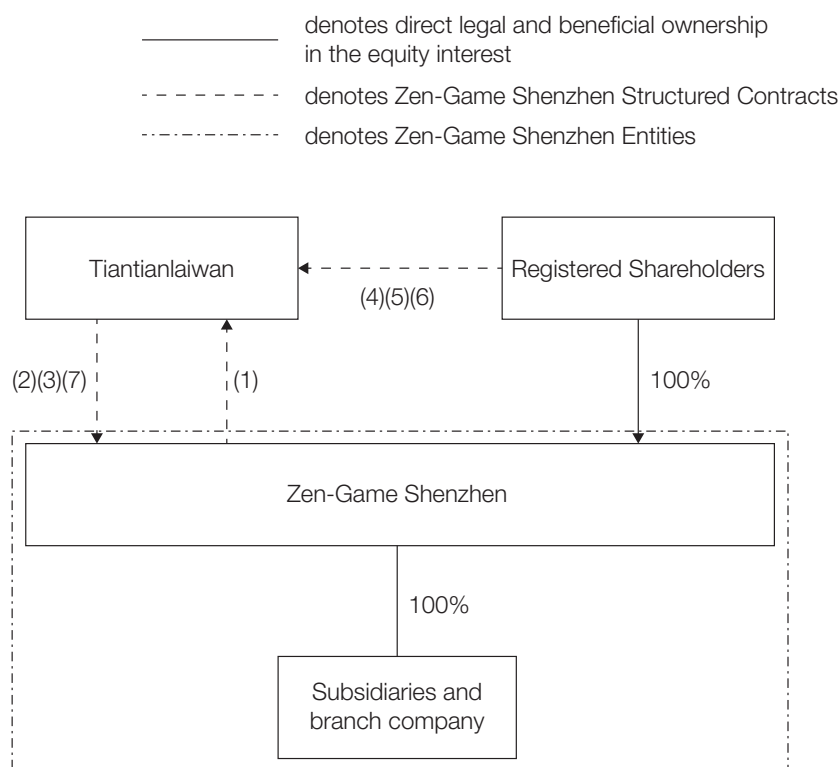
CONNECTED TRANSACTIONS

Save as the transactions contemplated under the Zen-Game Shenzhen Structured Contracts and Fingertip Interactive Structured Contracts as set out below, during the year ended 31 December 2021, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

Zen-Game Shenzhen Structured Contracts

A series of Zen-Game Shenzhen Structured Contracts was entered into between Tiantianlaiwan and Zen-game Shenzhen, pursuant to which the Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by the Zen-Game Shenzhen Entities. Accordingly, through the Zen-Game Shenzhen Structured Contracts, the results of operations and assets and liabilities of Zen-game Shenzhen and its subsidiaries are consolidated into our results of operations and assets and liabilities under HKFRS as if they were subsidiaries of the Group. The total revenue of the Zen-Game Shenzhen Entities during the year ended 31 December 2021 was approximately RMB1.4 billion, and the total assets was approximately RMB1.0 billion.

The following simplified diagram illustrates the flow of economic benefits from the Zen-Game Shenzhen Entities to the Group as stipulated under the Zen-Game Shenzhen Structured Contracts:



Notes:

1. Payment of service fees. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (1) Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement” below.
2. Provision of exclusive consultancy and technical services. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (1) Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement” below.
3. License of intellectual property rights. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (2) Zen-Game Shenzhen IP License Agreement” below.
4. Grant of exclusive call option to acquire all or some of the shares of Zen-Game Shenzhen and all or part of its assets. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (3) Zen-Game Shenzhen Exclusive Call Option Agreement” below.
5. Entrustment of Shareholders' right including Shareholders' power of attorney. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (4) Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement” and “Summary of the Zen-Game Shenzhen Structured Contracts – (5) Zen-Game Shenzhen Shareholders' Powers of Attorney” below.
6. Share pledge by Zen-Game Shenzhen the Registered Shareholders of their shares of Zen-Game Shenzhen. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (7) Zen-Game Shenzhen Share Pledge Agreement” below.
7. Provision of loans by Tiantianlaiwan to Shenzhen Zen-Game which will be directly settled by Tiantianlaiwan as capital contribution of the Zen-Game Shenzhen Entities on behalf of Shenzhen Zen-Game. Please refer to the paragraph headed “Summary of the Zen-Game Shenzhen Structured Contracts – (8) Zen-Game Shenzhen Loan Agreement” below.

As of the date of this annual report, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Zen-Game Shenzhen Structured Contracts and the consolidated financial results of the Zen-Game Shenzhen Entities are consolidated to those of the Group.

Summary of the Zen-Game Shenzhen Structured Contracts

A description of each of the specific agreements that comprise the Zen-Game Shenzhen Structured Contracts is set out below:

(1) Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement

Pursuant to the Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement, Tiantianlaiwan agreed to provide exclusive consultancy and technical services to Zen-Game Shenzhen, including but not limited to, (a) development, update, upgrade and maintenance of software for computer and mobile devices; (b) technical consultation and purchase of hardware, daily management, maintenance and update of database; (c) computer graphic design, website design and other related technical consulting services; (d) marketing on branding, product promotion placing, customer and public relations and management consulting services; (e) provision of technical training to staff; (f) engaging technical staff to provide on-site technical support; and (g) providing other technical services reasonably requested by Zen-Game Shenzhen.

In consideration of the consultancy and technical services provided by Tiantianlaiwan, Zen-Game Shenzhen agreed to pay Tiantianlaiwan by each quarter a service fee equal to income from operations from the preceding quarter. Tiantianlaiwan has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of Zen-Game Shenzhen.

Pursuant to the Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement, any intellectual property developed or created, including any other rights derived thereunder, in the course of performance of obligations under the Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement shall be vested with Tiantianlaiwan.

(2) Zen-Game Shenzhen IP License Agreement

Pursuant to the Zen-Game Shenzhen IP License Agreement, Tiantianlaiwan granted Zen-Game Shenzhen a non-exclusive and non-transferable intellectual property license to use the intellectual property rights relating to games development, operation and services that are legally owned by Tiantianlaiwan from time to time for the sole purpose of games development, operation and services of Zen-Game Shenzhen. In consideration of the foregoing, Zen-Game Shenzhen shall pay Tiantianlaiwan by each quarter a license fee, which is included in the service fees under the Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement.

Term of the Zen-Game Shenzhen IP license Agreement commence from 27 October 2018 and continue to be effective until Zen-Game Shenzhen ceases its business operation, subject to relevant laws and regulations in PRC. The Zen-Game Shenzhen IP license Agreement will be automatically terminated on the condition: (1) Tiantianlaiwan exercises its call option under the exclusive Call Option Agreement in full and all the shares of Zen-Game Shenzhen are transferred to Tiantianlaiwan; and (2) Tiantianlaiwan gives a 30 days prior written notice of termination.

The Zen-Game Shenzhen Registered Shareholders undertake to procure that all rights and obligations under the Zen-Game Shenzhen IP License Agreement will apply to any new holders of their shares in Zen-Games Shenzhen if any of the Zen-Game Shenzhen Registered Shareholders transfer, sell or dispose of their shares in Zen-Games Shenzhen leading to a change of their shareholding in Zen-Games Shenzhen.

Without the prior written consent of Tiantianlaiwan, the Zen-Game Shenzhen IP License Agreement takes priority over any other legal documentation that may be entered into by the Zen-Game Shenzhen Registered Shareholders and Zen-Games Shenzhen following the date of the Zen-Game Shenzhen IP License Agreement.

(3) Zen-Game Shenzhen Exclusive Call Option Agreement

Under the Zen-Game Shenzhen Exclusive Call Option Agreement, the Zen-Game Shenzhen Registered Shareholders have irrevocably granted Tiantianlaiwan or its designated purchaser the right to purchase all or some of (i) the shares in Zen-Game Shenzhen; and (ii) all or any part of the assets of Zen-Game Shenzhen ("**Equity Call Option**"). The purchase price payable by Tiantianlaiwan in respect of the transfer of such shares and assets upon exercise of the Equity Call Option shall be zero or the lowest price permitted under the PRC laws and regulations. Tiantianlaiwan or its designated purchaser shall have the right to purchase such proportion of the shares and assets in Zen-Game Shenzhen as it decides at any time.

In the event that PRC laws and regulations allow Tiantianlaiwan or us to directly hold all or part of the shares in Zen-Game Shenzhen and all or any part of its assets, and operate our mobile game operation business in the PRC, Tiantianlaiwan shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of shares and assets purchased upon exercise of the Equity Call Option shall not be lower than the maximum percentage then allowed to be held by Tiantianlaiwan or us under PRC laws and regulations.

The Zen-Game Shenzhen Registered Shareholders have further undertaken to Tiantianlaiwan that, among others, it:

- (a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over the shares of Zen-Game Shenzhen without the prior written consent of Tiantianlaiwan or as otherwise pledged under the Zen-Game Shenzhen Share Pledge Agreement;
- (b) shall not increase or reduce or agree to the increase or reduction of capital investment in Zen-Game Shenzhen without the prior consent of Tiantianlaiwan;
- (c) shall not dispose of or procure the management of Zen-Game Shenzhen to dispose of any of the assets of Zen-Game Shenzhen without the prior consent of Tiantianlaiwan, except in the ordinary course of business and provided that the value of such assets so disposed shall not exceed RMB2,000,000;
- (d) shall not terminate or procure the management of Zen-Game Shenzhen to terminate any material contract or enter into any other contracts which may contradict such material contracts (which includes any agreement under which the amount involved exceeds RMB2,000,000, the Zen-Game Shenzhen Structured Contracts and any agreement of similar nature or content to the Zen-Game Shenzhen Structured Contracts) without the prior consent of Tiantianlaiwan;
- (e) shall not procure Zen-Game Shenzhen to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of Zen-Game Shenzhen without the prior consent of Tiantianlaiwan, save for transactions which are in the ordinary course of business of Zen-Game Shenzhen, or transactions which have been disclosed to Tiantianlaiwan and approved by Tiantianlaiwan;
- (f) shall not agree to or procure Zen-Game Shenzhen to declare or in substance distribute any distributable dividends or agree to such distribution without the prior consent of Tiantianlaiwan;
- (g) shall not agree to or procure Zen-Game Shenzhen to amend its articles of association without the prior consent of Tiantianlaiwan;

- (h) shall ensure that Zen-Game Shenzhen does not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by Zen-Game Shenzhen exceeds RMB2,000,000, obligations which restrict or hinder the due performance of obligations under the Zen-Game Shenzhen Structured Contracts by Zen-Game Shenzhen, obligations which restrict or prohibit the financial or business operations of Zen-Game Shenzhen, or any obligations which may result in change of the structure of the shares of Zen-Game Shenzhen) outside its ordinary course of business without the prior consent of Tiantianlaiwan;
- (i) shall use their best endeavors to develop the business of Zen-Game Shenzhen and ensure compliance with laws and regulations by Zen-Game Shenzhen, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of operational licenses of Zen-Game Shenzhen;
- (j) shall, prior to the transfer of the shareholders' interest to Tiantianlaiwan or its designated purchaser and without prejudice to our Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement, execute all documents necessary for holding and maintaining the ownership of its shares of Zen-Game Shenzhen;
- (k) shall, in its capacity as shareholders of Zen-Game Shenzhen and without prejudice to the Zen-Game Shenzhen Structured Contracts, procure directors nominated by them to exercise all rights to enable Zen-Game Shenzhen to perform its rights and obligations under the Zen-Game Shenzhen Exclusive Call Option Agreement, and shall replace any director or council member who fails to do so; and
- (l) in the event that the consideration paid by Tiantianlaiwan or its designated purchaser for the transfer of all or some of the shares in Zen-Game Shenzhen exceeds RMB0, shall pay such excess amount to Tiantianlaiwan or its designated entity.

In addition, the Zen-Game Shenzhen Registered Shareholders undertake to Tiantianlaiwan that, in the event of a merger and subdivision of the Zen-Game Shenzhen Registered Shareholders, presentation by the Zen-Game Shenzhen Registered Shareholders or the Zen-Game Shenzhen Registered Shareholders being presented any application for winding up, liquidation, winding up restructuring or reconciliation, dissolution and liquidation of the Zen-Game Shenzhen Registered Shareholders pursuant to an order, application for involuntary dissolution of the Zen-Game Shenzhen Registered Shareholders or other reasons, or other circumstances which may affect the Zen-Game Shenzhen Registered Shareholders in exercising its direct or indirect interest in Zen-Game Shenzhen, they shall have made all necessary arrangement and sign all necessary documents such that the successor, administrator, liquidation committee and any other person which may as a result of the above events obtain the direct or indirect interest or relevant rights in Zen-Game Shenzhen shall not prejudice or hinder the enforcement of the Zen-Game Shenzhen Structured Contracts.

(4) Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement

Pursuant to the Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement and the Supplemental Agreement to the Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement, each of the Zen-Game Shenzhen Registered Shareholders has irrevocably authorized and entrusted Tiantianlaiwan and its designated persons (including but not limited to any liquidator in replacement of Tiantianlaiwan's director), but excluding any person who is not independent from Zen-Game Shenzhen or may give rise to any conflict of interest, to exercise all of its respective rights as shareholders of Zen-Game Shenzhen to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to convene and attend shareholders' meetings of Zen-Game Shenzhen in accordance with the articles of association of Zen-Game Shenzhen and the right to sign all shareholders' resolutions and other legal documents; (b) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of Zen-Game Shenzhen; (c) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of Zen-Game Shenzhen (including but not limited to nominate and appoint the legal representatives, chairman, directors, supervisors, senior management members); (d) the right to handle the legal procedures of registration, approval and licensing of Zen-Game Shenzhen at the relevant government regulatory departments; (e) the right to supervise the operation and financial performance of Zen-Game Shenzhen, to declare dividends and to inspect the financial information of Zen-Game Shenzhen; (f) to institute legal proceedings against any director or management if such director or management conducted any act that harms the interest of Zen-Game Shenzhen or its shareholders; (g) to approve the amendments to the articles of association of Zen-Game Shenzhen; and (h) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of Zen-Game Shenzhen as amended from time to time.

In addition, each of the Zen-Game Shenzhen Registered Shareholders has irrevocably agreed that any person as successor of civil rights of Tiantianlaiwan or liquidator by reason of subdivision, merger, liquidation of Tiantianlaiwan or other circumstances shall have authority to replace Tiantianlaiwan to exercise all rights under the Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement.

(5) Zen-Game Shenzhen Shareholders' Powers of Attorney

Pursuant to the Zen-Game Shenzhen Shareholders' Powers of Attorney executed by each of the Zen-Game Shenzhen Registered Shareholders in favor of Tiantianlaiwan, and its designated persons (including but not limited to any liquidator in replacement of Tiantianlaiwan's director), but excluding any person who is not independent from Zen-Game Shenzhen or may give rise to any conflict of interest, each of the Zen-Game Shenzhen Registered Shareholders authorized and appointed Tiantianlaiwan, as its agent to act on its behalf to exercise or delegate the exercise of all its rights as shareholders of the Zen-Game Shenzhen. For details of the rights granted, please refer to the section headed "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) Shareholders' Rights Entrustment Agreement" in the prospectus.

The Zen-Game Shenzhen Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement and the supplemental agreement to the Zen-Game Shenzhen Shareholders' Rights Entrustment Agreement.

(6) Zen-Game Shenzhen Spouse Undertakings

Each of the spouses of Mr. Ye Sheng and Mr. Yang Min, being our Controlling Shareholders, signed the Zen-Game Shenzhen Spouse Undertakings on 27 October 2018 (collectively, the **"Existing Spouse Undertakings"**). Pursuant to the Existing Spouse Undertakings, each of Mr. Ye Sheng's and Mr. Yang Min's spouse has irrevocably undertaken that:

- (a) the spouse has full knowledge of and has consented to the entering into of the Zen-Game Shenzhen Structured Contracts by each of Mr. Ye Sheng and Mr. Yang Min, and in particular, the arrangement as set out in the Zen-Game Shenzhen Structured Contracts in relation to the restrictions imposed on the direct or indirect interest in shares of Zen-Game Shenzhen, pledge or transfer the direct or indirect interest in shares of Zen-Game Shenzhen, or the disposal of the direct or indirect interest in shares of Zen-Game Shenzhen in any other forms;
- (b) all the shares held by each of Mr. Ye Sheng and Mr. Yang Min in Zen-Game Shenzhen are assets solely owned by Mr. Ye Sheng or Mr. Yang Min (as the case may be) and she will not claim any shares of Zen-Game Shenzhen;
- (c) no claims or actions against the Zen-Game Shenzhen Structured Contracts will be taken by the spouse and she will take all necessary actions to ensure the proper performance of the Zen-Game Shenzhen Structured Contracts;
- (d) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to the Zen-Game Shenzhen Entities;
- (e) the spouse who holds indirect interest in Zen-Game Shenzhen, will be subject to and abide by the terms of the Zen-Game Shenzhen Structured Contracts as if she was a signing party to such Zen-Game Shenzhen Structured Contracts, and she will sign any documents in the form and substance consistent with the Zen-Game Shenzhen Structured Contracts;
- (f) she will not (whether directly or indirectly, actively or passively) act, or omit to act, against the purpose or intention of the Zen-Game Shenzhen Structure Contracts;
- (g) the spouse authorizes Mr. Ye Sheng or Mr. Yang Min (as the case may be) or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's shares of Zen-Game Shenzhen (direct or indirect) in order to safeguard the interest of Tiantianlaiwan under the Zen-Game Shenzhen Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

- (h) any undertaking, confirmation, consent and authorization under the Zen-Game Shenzhen Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect interest in shares of Zen-Game Shenzhen of Mr. Ye Sheng or Mr. Yang Min;
- (i) any undertaking, confirmation, consent and authorization under the Zen-Game Shenzhen Spouse Undertakings shall not be invalid, prejudiced or otherwise adversely affected by reason of her loss of or restriction on capacity, death, divorce or other similar events; and
- (j) all undertakings, confirmations, consents and authorizations under the Zen-Game Shenzhen Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tiantianlaiwan and the spouses of Mr. Ye Sheng and Mr. Yang Min in writing.

In addition, each of the spouses of Ms. Zhang Wei, Ms. Li Wen, Mr. Zhang Dexiang, Ms. Xie Biyu, Mr. Kang Yonghong, Mr. Zhu Weijie, Mr. Huang Yucong and Mr. Yu Xi, being the ultimate shareholders of Shenzhen Dechangqing Technology Co., Ltd.* (深圳市德常青科技有限公司), Shenzhen Dewenshiji Technology Co., Ltd.* (深圳市德文世紀科技有限公司) and Hezhongshiji, also signed their respective Zen-Game Shenzhen Spouse Undertakings on 3 January 2019, 14 February 2019 and 15 February 2019, in substantially the same terms. The ultimate shareholders who currently do not have a spouse, namely, Mr. Bao Zhoujia, Mr. Cheng Long and Mr. Lin Cong also signed their respective undertakings on 6 January 2019 and 7 January 2019, irrevocably undertake and ensure to procure their future spouses to sign the same Zen-Game Shenzhen Spouse Undertaking. The Zen-Game Shenzhen Spouse Undertakings had therefore been signed by the spouses of all the ultimate shareholders of the Zen-Game Shenzhen Registered Shareholders (where applicable and other than Wu Hu Shunrong 37 Interactive Entertainment Network Technology Co., Ltd.* (蕪湖順榮三七互娛網絡科技股份有限公司) which is a listed company) and the Directors believe are sufficient to protect the Company's interest in the event of death or divorce of the Zen-Game Shenzhen Registered Shareholders.

In September 2020, there were some equity transfers in Tianchan, Dingyi and Hezhongshiji, all are the Zen-Game Shenzhen Registered Shareholders. In particular, Mr. Ye Sheng transferred (i) 98% equity interest in Tianchan and 60.51% equity interest in Hezhongshiji to his spouse, Ms. Xie Yingying; and (ii) 1% equity interest in Tianchan to his mother. Mr. Yang Min transferred 90% equity interest in Dingyi to his spouse, Ms. Jiang Qian, and Ms. Jiang Qian transferred her 1% equity interest in Dingyi to her mother. Upon completion of the aforesaid equity transfers, (i) Tianchan became owned as to 99% by Ms. Xie Yingying and 1% by Mr. Ye Shang's mother; (ii) Hezhongshiji became directly owned as to 60.51% by Ms. Xie Yingying and Mr. Ye Sheng is no longer a shareholder of Tianchan and Hezhongshiji; and (iii) Dingyi became owned as to 99% by Ms. Jiang Qian and 1% by Ms. Jiang Qian's mother and Mr. Yang Min is no longer a shareholder of Dingyi.

In light of the aforesaid equity transfers and in order to ensure that the Company's interest is sufficiently protected, the Existing Spouse Undertakings were terminated and on 27 September 2020, Mr. Ye Sheng, Mr. Ye Sheng's father, Mr. Yang Min and Ms. Jiang Qian's father entered into new spouse undertakings, which became effective immediately upon completion of the aforesaid equity transfers. The principal terms of such new spouse undertakings are substantially the same as those of the Existing Spouse Undertakings. In addition, each of Mr. Ye Sheng, Ms. Xie Yingying, Mr. Ye Sheng's mother, Mr. Yang Min, Ms. Jiang Qian and Ms. Jiang Qian's mother also confirmed that, during the period when the Zen-Game Shenzhen Structured Contracts remain valid, they will execute any documents and take all necessary actions as required by Tiantianlaiwan in respect of his or her indirect shareholding in Zen-Game Shenzhen, and will not make any request in respect of his or her present or past indirect shareholding in Zen-Game Shenzhen that will conflict with, or take any actions that will be inconsistent with, the terms of the Zen-Game Shenzhen Structured Contracts.

(7) Zen-Game Shenzhen Share Pledge Agreement

Pursuant to the Zen-Game Shenzhen Share Pledge Agreement, each of the Zen-Game Shenzhen Registered Shareholders irrevocably pledged and granted first priority security interests over all of its shares of Zen-Game Shenzhen together with all related rights thereto to Tiantianlaiwan as security for performance of the Zen-Game Shenzhen Structured Contracts and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Tiantianlaiwan as a result of any event of default on the part of the Zen-Game Shenzhen Registered Shareholders and/or Zen-Game Shenzhen and all expenses incurred by Tiantianlaiwan as a result of enforcement of the obligations of the Zen-Game Shenzhen Registered Shareholders and/or Zen-Game Shenzhen under the Zen-Game Shenzhen Structured Contracts (the "**Secured Indebtedness**").

Pursuant to the Zen-Game Shenzhen Share Pledge Agreement, without the prior written consent of Tiantianlaiwan, the Zen-Game Shenzhen Registered Shareholders shall not transfer the shares or create further pledge or encumbrance over the pledged equity interest. Any unauthorized transfer shall be invalid, and the proceeds of any transfer of the shares shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Tiantianlaiwan. The Zen-Game Shenzhen Registered Shareholders also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Zen-Game Shenzhen Share Pledge Agreement.

Upon the occurrence of an event of default, Tiantianlaiwan shall have the right to enforce the Zen-Game Shenzhen Share Pledge Agreement by written notice to the Zen-Game Shenzhen Registered Shareholders in one or more of the following ways:

- (a) to the extent permitted under PRC laws and regulations, Tiantianlaiwan may request the Zen-Game Shenzhen Registered Shareholders to transfer all or some of its shares of the Zen-Game Shenzhen Entities to any entity or individual designated by Tiantianlaiwan at the lowest consideration permissible under the PRC laws and regulations;
- (b) sell the pledged shares by way of auction or at a discount and have priority in the entitlement to the sales proceeds; and/or
- (c) dispose of the pledged shares in other manner subject to applicable laws and regulations.

The Market Supervision and Management Bureau of Shenzhen approved the registration of the Zen-Game Shenzhen Share Pledge Agreement and published relevant information of the pledge on its official website on 17 December 2018.

(8) Zen-Game Shenzhen Loan Agreement

Pursuant to the Zen-Game Shenzhen Loan Agreement, Tiantianlaiwan agreed to provide loans to, among others, Zen-Game Shenzhen from time to time in accordance with the PRC laws and regulations and Zen-Game Shenzhen agreed to utilize the proceeds of such loans as necessary for the operations and development of the Zen-Game Shenzhen Entities.

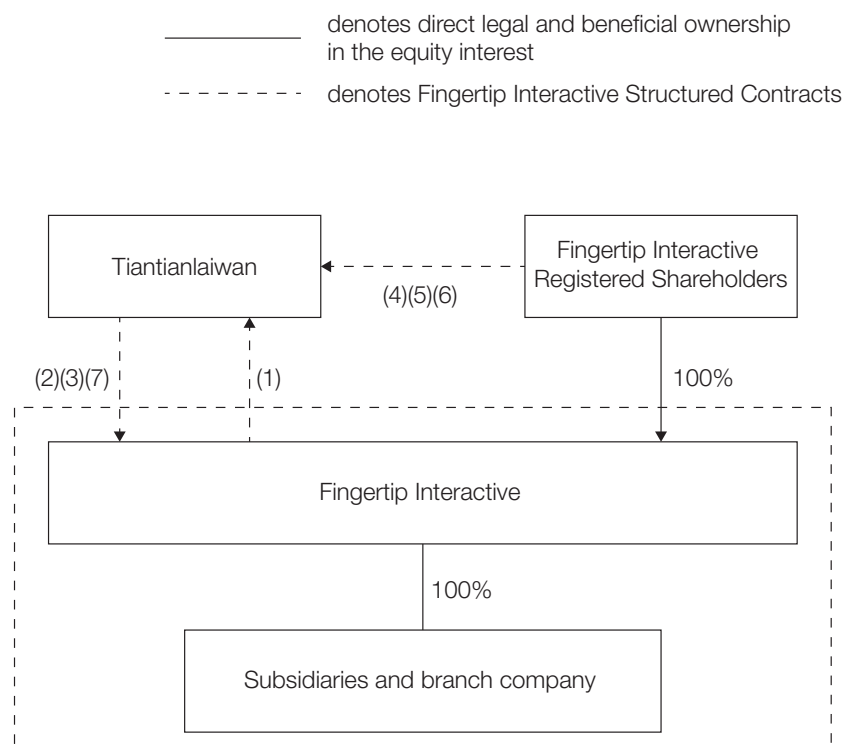
Reasons for adopting the Zen-Game Shenzhen Structured Contracts

We conduct our business of developing and operating mobile games through our subsidiaries in the PRC and are thus considered to be engaged in the provision of value-added telecommunications services and Internet cultural business. PRC laws and regulations currently restrict the operation of value-added telecommunications services (except for e-commerce), in addition to imposing qualification requirements on the foreign owners and prohibit the operation of Internet culture services (except for music) business to foreign investors. To comply with relevant PRC laws and regulations, our mobile game operation business is directly conducted by the Zen-Game Shenzhen Entities and we do not hold any equity interest in the Zen-Game Shenzhen Entities. For further details of the foreign investment restrictions relating to the Zen-Game Shenzhen Structured Contracts, please refer to the sections headed “Structured Contracts – PRC laws and regulations relating to foreign ownership in the mobile game industry” and “Structured Contracts – Development in the PRC Legislation on Foreign Investment” on pages 152 to 155 and pages 169 to 175 of the Prospectus.

Fingertip Interactive Structured Contracts

On 27 September 2020, the Group entered into the Fingertip Interactive Structured Contracts with Fingertip Interactive and the Fingertip Interactive Registered Shareholders as a result of an internal restructuring, pursuant to which the financials and results of operations of Fingertip Interactive will continue to be consolidated and accounted for as a subsidiary. The Fingertip Interactive Structured Contracts were reproduced from the Zen-Game Shenzhen Structured Contracts. The total revenue of Fingertip Interactive during the year ended 31 December 2021 was approximately RMB61.2 million, and the total assets was approximately RMB109.0 million.

The following simplified diagram illustrates the flow of economic benefits from Fingertip Interactive to the Group as stipulated under the Fingertip Interactive Structured Contracts:



Notes:

1. Payment of service fee.
2. Provision of exclusive consultancy and technical service.
3. License of intellectual property rights.
4. Grant of exclusive call option to acquire all or some of the equity interest of Fingertip Interactive and all or part of its assets.
5. Entrustment of Shareholders' right including Shareholders' power of attorney.
6. Equity pledge by the Fingertip Interactive Registered Shareholders of their equity interest of Fingertip Interactive.
7. Provision of loans by Tiantianlaiwan to Fingertip Interactive from time to time.

As at the date of this annual report, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Fingertip Interactive Structured Contracts and the consolidated financial results of Fingertip Interactive are consolidated to those of the Group.

Summary of the Fingertip Interactive Structured Contracts

A description of each of the specific agreements that comprise the Fingertip Interactive Structured Contracts is set out below:

(1) Fingertip Interactive Exclusive Consultancy and Technical Service Agreement

Pursuant to the Fingertip Interactive Exclusive Consultancy and Technical Service Agreement, Tiantianlaiwan agreed to provide exclusive consultancy and technical services to Fingertip Interactive, including but not limited to, (a) development, update, upgrade and maintenance of software for computer and mobile devices; (b) technical consultation and purchase of hardware, daily management, maintenance and update of database; (c) computer graphic design, website design and other related technical consulting services; (d) marketing on branding, product promotion placing, customer and public relations; (e) provision of technical training to staff and management consulting services; (f) engaging technical staff to provide on-site technical support; and (g) providing other technical services reasonably requested by Fingertip Interactive.

In consideration of the consultancy and technical services provided by Tiantianlaiwan, Fingertip Interactive agreed to pay Tiantianlaiwan by each quarter a service fee equal to income from operations from the preceding quarter. Tiantianlaiwan has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of Fingertip Interactive.

Pursuant to the Fingertip Interactive Exclusive Consultancy and Technical Service Agreement, any intellectual property developed or created, including any other rights derived thereunder, in the course of performance of obligations under the Fingertip Interactive Exclusive Consultancy and Technical Service Agreement shall be vested with Tiantianlaiwan.

(2) Fingertip Interactive IP License Agreement

Pursuant to the Fingertip Interactive IP License Agreement, Tiantianlaiwan granted Fingertip Interactive a non-exclusive and non-transferable intellectual property license to use the intellectual property rights relating to games development, operation and services that are legally owned by Tiantianlaiwan from time to time for the sole purpose of games development, operation and services of Fingertip Interactive. In consideration of the foregoing, Fingertip Interactive shall pay Tiantianlaiwan by each quarter a license fee, which is included in the service fees under the Fingertip Interactive Exclusive Consultancy and Technical Service Agreement.

Term of the Fingertip Interactive IP License Agreement commence from September 27, 2020 and continue to be effective until Fingertip Interactive ceases its business operation, subject to relevant laws and regulations in PRC. The Fingertip Interactive IP License Agreement will be automatically terminated on the condition: (1) Tiantianlaiwan exercises its call option under the Fingertip Interactive Exclusive Call Option Agreement in full and all the equity interest of Fingertip Interactive are transferred to Tiantianlaiwan; (2) Tiantianlaiwan gives a one-month prior written notice of termination.

(3) **Fingertip Interactive Exclusive Call Option Agreement**

Under the Fingertip Interactive Exclusive Call Option Agreement, the Fingertip Interactive Registered Shareholders have irrevocably granted Tiantianlaiwan or its designated purchaser the right to purchase all or some of (i) the equity interest in Fingertip Interactive; and (ii) all or any part of the assets of Fingertip Interactive (“**Fingertip Interactive Equity Call Option**”). The purchase price payable by Tiantianlaiwan in respect of the transfer of such equity interest and assets upon exercise of the Fingertip Interactive Equity Call Option shall be zero or the lowest price permitted under the PRC laws and regulations. Tiantianlaiwan or its designated purchaser shall have the right to purchase such proportion of the equity interest and assets in Fingertip Interactive as it decides at any time.

In the event that PRC laws and regulations allow Tiantianlaiwan or us to directly hold all or part of the equity interest in Fingertip Interactive and all or any part of its assets, and operate our mobile game operation business in the PRC, Tiantianlaiwan shall issue the notice of exercise of the Fingertip Interactive Equity Call Option as soon as practicable, and the percentage of equity and assets purchased upon exercise of the Fingertip Interactive Equity Call Option shall not be lower than the maximum percentage then allowed to be held by Tiantianlaiwan or us under PRC laws and regulations.

The Fingertip Interactive Registered Shareholders have further undertaken to Tiantianlaiwan that, among others, they:

- (a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over the equity interest of Fingertip Interactive without the prior written consent of Tiantianlaiwan or as otherwise pledged under the Fingertip Interactive Equity Pledge Agreement;
- (b) shall not increase or reduce or agree to the increase or reduction of capital investment in Fingertip Interactive without the prior consent of Tiantianlaiwan;
- (c) shall not dispose of or procure the management of Fingertip Interactive to dispose of any of the assets of Fingertip Interactive without the prior consent of Tiantianlaiwan, except in the ordinary course of business and provided that the value of such assets so disposed shall not exceed RMB2,000,000;
- (d) shall not terminate or procure the management of Fingertip Interactive to terminate any material contract or enter into any other contracts which may contradict such material contracts (which includes any agreement under which the amount involved exceeds RMB2,000,000, the Fingertip Interactive Structured Contracts and any agreement of similar nature or content to the Fingertip Interactive Structured Contracts) without the prior consent of Tiantianlaiwan;

- (e) shall not procure Fingertip Interactive to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of Fingertip Interactive without the prior consent of Tiantianlaiwan, save for transactions which are in the ordinary course of business of Fingertip Interactive, or transactions which have been disclosed to Tiantianlaiwan and approved by Tiantianlaiwan;
- (f) shall not agree to or procure Fingertip Interactive to declare or in substance distribute any distributable dividends or agree to such distribution without the prior consent of Tiantianlaiwan;
- (g) shall not agree to or procure Fingertip Interactive to amend its articles of association without the prior consent of Tiantianlaiwan;
- (h) shall ensure that Fingertip Interactive does not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by Fingertip Interactive exceeds RMB2,000,000, obligations which restrict or hinder the due performance of obligations under the Fingertip Interactive Structured Contracts by Fingertip Interactive, obligations which restrict or prohibit the financial or business operations of Fingertip Interactive, or any obligations which may result in change of the structure of the equity interest of Fingertip Interactive) outside its ordinary course of business without the prior consent of Tiantianlaiwan;
- (i) shall use their best endeavors to develop the business of Fingertip Interactive and ensure compliance with laws and regulations by Fingertip Interactive, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of the operational licenses of Fingertip Interactive;
- (j) shall, prior to the transfer of the shareholders' interest to Tiantianlaiwan or its designated purchaser and without prejudice to the Fingertip Interactive Shareholders' Rights Entrustment, execute all documents necessary for holding and maintaining the ownership of its equity interest of Fingertip Interactive;
- (k) shall, in its capacity as shareholders of Fingertip Interactive and without prejudice to the Fingertip Interactive Structured Contracts, procure directors nominated by them to exercise all rights to enable Fingertip Interactive to perform its rights and obligations under the Fingertip Interactive Exclusive Call Option Agreement, and shall replace any director or council member who fails to do so; and
- (l) in the event that the consideration paid by Tiantianlaiwan or its designated purchaser for the transfer of all or some of the equity interest in Fingertip Interactive exceeds RMB0, shall pay such excess amount to Tiantianlaiwan or its designated entity.

In addition, the Fingertip Interactive Registered Shareholders undertake to Tiantianlaiwan that, in the event of a merger and subdivision of the Fingertip Interactive Registered Shareholders, presentation by the Fingertip Interactive Registered Shareholders or the Fingertip Interactive Registered Shareholders being presented any application for winding up, liquidation, winding up restructuring or reconciliation, dissolution and liquidation of the Fingertip Interactive Registered Shareholders pursuant to an order, application for involuntary dissolution of the Fingertip Interactive Registered Shareholders or other reasons, or other circumstances which may affect the Fingertip Interactive Registered Shareholders in exercising their direct or indirect interest in Fingertip Interactive, they shall have made all necessary arrangement and sign all necessary documents such that the successor, administrator, liquidation committee and any other person which may as a result of the above events obtain the direct or indirect interest or relevant rights in Fingertip Interactive shall not prejudice or hinder the enforcement of the Fingertip Interactive Structured Contracts.

(4) *Fingertip Interactive Shareholders' Rights Entrustment Agreement*

Pursuant to the Fingertip Interactive Shareholders' Rights Entrustment Agreement, each of the Fingertip Interactive Registered Shareholders has irrevocably authorized and entrusted Tiantianlaiwan and its designated persons (including but not limited to any liquidator in replacement of Tiantianlaiwan's director), but excluding any person who is not independent from Fingertip Interactive or may give rise to any conflict of interest, to exercise all of its respective rights as shareholders of Fingertip Interactive to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to convene and attend shareholders' meetings of Fingertip Interactive in accordance with the articles of association of Fingertip Interactive and the right to sign all shareholders' resolutions and other legal documents; (b) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of Fingertip Interactive; (c) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of Fingertip Interactive (including but not limited to nominate and appoint the legal representatives, chairman, directors, supervisors, senior management members); (d) the right to handle the legal procedures of registration, approval and licensing of Fingertip Interactive at the relevant government regulatory departments; (e) the right to supervise the operation and financial performance of Fingertip Interactive, to declare dividends and to inspect the financial information of Fingertip Interactive; (f) to institute legal proceedings against any director or management if such director or management conducted any act that harms the interest of Fingertip Interactive or its shareholders; (g) to approve the amendments to the articles of association of Fingertip Interactive; and (h) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of Fingertip Interactive as amended from time to time.

In addition, each of the Fingertip Interactive Registered Shareholders has irrevocably agreed that any person as successor of civil rights of Tiantianlaiwan or liquidator by reason of subdivision, merger, liquidation of Tiantianlaiwan or other circumstances shall have authority to replace Tiantianlaiwan to exercise all rights under the Fingertip Interactive Shareholders' Rights Entrustment Agreement.

(5) Fingertip Interactive Shareholders' Powers of Attorney

Pursuant to the Fingertip Interactive Shareholders' Powers of Attorney executed by each of the Fingertip Interactive Registered Shareholders in favour of Tiantianlaiwan, and its designated persons (including but not limited to any liquidator in replacement of Tiantianlaiwan's director), but excluding any person who is not independent from Fingertip Interactive or may give rise to any conflict of interest, each of the Fingertip Interactive Registered Shareholders authorized and appointed Tiantianlaiwan, as its agent to act on its behalf to exercise or delegate the exercise of all its rights as shareholders of the Fingertip Interactive.

The Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Fingertip Interactive Shareholders' Rights Entrustment Agreement.

(6) Fingertip Interactive Spouse Undertakings

The spouse of each of the Fingertip Interactive Registered Shareholders, signed the Fingertip Interactive Spouse Undertakings and which the Directors believe are sufficient to protect the Company's interest in the event of death, bankruptcy or divorce of the Fingertip Interactive Registered Shareholders. Pursuant to the Fingertip Interactive Spouse Undertakings, the spouse of each of the Fingertip Interactive Registered Shareholders has irrevocably undertaken that:

- (a) she has full knowledge of and has consented to the entering into of the Fingertip Interactive Structured Contracts by her spouse, and in particular, the arrangement as set out in the Fingertip Interactive Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest of Fingertip Interactive, pledge or transfer the direct or indirect equity interest of Fingertip Interactive, or the disposal of the direct or indirect equity interest of Fingertip Interactive in any other forms;
- (b) all the equity interest held by each of the Fingertip Interactive Registered Shareholders in Fingertip Interactive are assets solely owned by the Fingertip Interactive Registered Shareholders and she will not claim any equity interest of Fingertip Interactive;
- (c) no claims or actions against the Fingertip Interactive Structured Contracts will be taken by the spouse and she will take all necessary actions to ensure the proper performance of the Fingertip Interactive Structured Contracts;
- (d) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to Fingertip Interactive;
- (e) the spouse who holds indirect interest in Fingertip Interactive, will be subject to and abide by the terms of the Fingertip Interactive Structured Contracts as if she was a signing party to such Structured Contracts, and she will sign any documents in the form and substance consistent with the Fingertip Interactive Structured Contracts;

- (f) she will not (whether directly or indirectly, actively or passively) act, or omit to act, against the purpose or intention of the Fingertip Interactive Structured Contracts;
- (g) she authorises her spouse or her spouse's authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on her behalf in relation to her spouse's equity interest of Fingertip Interactive (direct or indirect) in order to safeguard the interest of Tiantianlaiwan under the Fingertip Interactive Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;
- (h) any undertaking, confirmation, consent and authorization under the Fingertip Interactive Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect equity interest of Fingertip Interactive of the Fingertip Interactive Registered Shareholders;
- (i) any undertaking, confirmation, consent and authorization under the Fingertip Interactive Spouse Undertakings shall not be invalid, prejudiced or otherwise adversely affected by reason of her loss of or restriction on capacity, death, divorce or other similar events; and
- (j) all undertakings, confirmations, consents and authorizations under the Fingertip Interactive Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tiantianlaiwan and the spouses of the Fingertip Interactive Registered Shareholders in writing.

(7) Fingertip Interactive Equity Pledge Agreement

Pursuant to the Fingertip Interactive Equity Pledge Agreement, each of the Fingertip Interactive Registered Shareholders irrevocably pledged and granted first priority security interests over all of its equity interest of Fingertip Interactive together with all related rights thereto to Tiantianlaiwan as security for performance of the Fingertip Interactive Structured Contracts and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Tiantianlaiwan as a result of any event of default on the part of the Fingertip Interactive Registered Shareholders and/or Fingertip Interactive and all expenses incurred by Tiantianlaiwan as a result of enforcement of the obligations of the Fingertip Interactive Registered Shareholders and/or Fingertip Interactive under the Fingertip Interactive Structured Contracts (the "**Fingertip Interactive Secured Indebtedness**").

Pursuant to the Fingertip Interactive Equity Pledge Agreement, without the prior written consent of Tiantianlaiwan, the Fingertip Interactive Registered Shareholders shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorized transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Fingertip Interactive Secured Indebtedness or deposited to such third party as agreed to by Tiantianlaiwan. The Fingertip Interactive Registered Shareholders also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Fingertip Interactive Equity Pledge Agreement.

Upon the occurrence of an event of default, Tiantianlaiwan shall have the right to enforce the Fingertip Interactive Equity Pledge Agreement by written notice to the Fingertip Interactive Registered Shareholders in one or more of the following ways:

- (k) to the extent permitted under PRC laws and regulations, Tiantianlaiwan may request the Fingertip Interactive Registered Shareholders to transfer all or some of its equity interest of Fingertip Interactive to any entity or individual designated by Tiantianlaiwan at the lowest consideration permissible under the PRC laws and regulations;
- (l) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds; and/or
- (m) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

The Market Supervision and Management Bureau of Shenzhen approved the registration of the Fingertip Interactive Equity Pledge Agreement on 27 September 2020.

(8) Fingertip Interactive Loan Agreement

Pursuant to the Fingertip Interactive Loan Agreement, Tiantianlaiwan agreed to provide loans to, among others, Fingertip Interactive from time to time in accordance with the PRC laws and regulations and Fingertip Interactive agreed to utilize the proceeds of such loans as necessary for the operations and development of Fingertip Interactive.

Reasons for adopting the Fingertip Interactive Structured Contracts

The Group focuses its business on the development and operation of mobile games and with the continuous growth of its business, the establishment of Fingertip Interactive will allow the Group to have an entity separately dedicated to focus on future cooperation with other third-party distribution platforms in providing mobile game services to players of our games and promote our new game products. As advised by the PRC legal advisers, pursuant to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition) (外商投資准入特別管理措施)(負面清單)(2020年版), foreign investment in Internet culture businesses (except for music), which is the business that Fingertip Interactive intends to carry out, is prohibited. Similar to the arrangement with the Zen-Game Shenzhen Entities, the Company could gain effective control over, and receive all the economic benefits generated by the business to be operated by Fingertip Interactive through a series of contracts between Tiantianlaiwan, an indirect wholly-owned subsidiary of the Company on the one hand, and Zen-Game Shenzhen and the Fingertip Interactive Registered Shareholders on the other hand.

Risks relating to the Zen-Game Shenzhen Structured Contracts and the Fingertip interactive Structured Contracts

There are certain risks that are associated with the Zen-Game Shenzhen Structured Contracts, including:

- If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Zen-Game Shenzhen Structured Contracts and the relinquishment of our interest in the Zen-Game Shenzhen Entities.
- The Zen-Game Shenzhen Structured Contracts may not be as effective in providing operational control as direct ownership. Zen-Game Shenzhen may fail to perform its obligations under the Zen-Game Shenzhen Structured Contracts.
- We may lose the ability to use and enjoy assets and licenses held by Zen-Game Shenzhen and its subsidiaries and branch company that are material to our business operations if Zen-Game Shenzhen or any of its subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- The ultimate shareholders of the Zen-Game Shenzhen Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.
- Our exercise of the option to acquire the shares in Zen-Game Shenzhen may be subject to certain limitations and we may incur substantial costs and expend significant resources to enforce the option under the Zen-Game Shenzhen Structured Contracts.
- Our Zen-Game Shenzhen Structured Contracts may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our combined 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 Structured Contracts” on pages 75 to 81 of the Prospectus.

There are also certain risks that are associated with the Fingertip Interactive Structured Contracts, including:

- The Company's business, financial condition and results of operations would be adversely affected if Fingertip Interactive suffers losses given that Fingertip Interactive's financial condition and results of operations are consolidated into the Group's financial condition and results of operations under the applicable accounting principles.
- The Group may incur substantial cost to exercise the option to acquire the equity interest in Fingertip Interactive.
- If the PRC government finds that the Fingertip Interactive Structured Contracts do not comply with its restrictions on foreign investment in businesses, or if the PRC government otherwise finds that Fingertip Interactive is in violation of PRC laws or regulations or lack the necessary permits or licenses to operate its business, the Group may face severe consequences including, but not limited to, the Group's business and operating licenses being evoked, the Group's operations being discontinued or restricted.
- The Fingertip Interactive Structured Contracts may not be as effective in providing control over Fingertip Interactive as direct ownership. Fingertip Interactive may fail to perform its obligations under the Fingertip Interactive Structured Contracts and the Company may incur substantial costs and expend substantial resources to enforce the rights of the Group.
- The Fingertip Interactive Registered Shareholders may potentially have conflicts of interest with the Group or breach their contracts or undertakings with the Group if it would further their own interest or if they otherwise act in bad faith.
- The Group could face material and adverse tax consequences if the PRC tax authorities determine that the Fingertip Interactive Exclusive Consultancy and Technical Service Agreement does not represent an arms-length price and adjust Fingertip Interactive's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase the Group's tax liabilities.

For further details of these risks, please refer to the paragraph headed "Risks and Limitations relating to the New Structured Contracts" in the Announcement.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of and the compliance with the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts:

- (a) major issues arising from the implementation and compliance with the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (b) the Board will review the overall performance of and compliance with the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts at least once a year;

- (c) the Company will disclose the overall performance and compliance with the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts in its annual reports and interim reports to update the Shareholders and potential investors;
- (d) the Company and the Directors undertake to provide periodic updates in our annual and interim reports regarding the Qualification Requirement and our status of compliance with the Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts – Background of the Structured Contracts" and the latest development of the Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts – Development in the PRC Legislation on Foreign Investment", including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and
- (e) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts, review the legal compliance of Tiantianlaiwan and Zen-Game Shenzhen and/or Fingertip Interactive to deal with specific issues or matters arising from the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts, respectively.

In addition, we believe that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of the Directors is aware of his/her fiduciary duties as a Director which requires, amongst other things, that he/she acts for the benefits and in the best interests of the Group;
- (c) we have appointed three independent non-executive Directors, comprising over one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and our Shareholders as a whole; and
- (d) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his/her associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Zen-Game Shenzhen Structured Contracts constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules. As such, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Zen-Game Shenzhen Structured Contracts pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Zen-Game Shenzhen Structured Contracts under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Zen-Game Shenzhen Structured Contracts to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) no change to the Zen-Game Shenzhen Structured Contracts will be made without the approval of the independent non-executive Directors;
- (b) no change to the agreements governing the Zen-Game Shenzhen Structured Contracts will be made without the approval of our independent Shareholders;
- (c) the Zen-Game Shenzhen Structured Contracts shall continue to enable the Group to receive the economic benefits derived by the Zen-Game Shenzhen Entities through (i) the Group's option, to the extent permitted under PRC laws and regulations, to acquire all or part of the shares of Zen-Game Shenzhen held by the Zen-Game Shenzhen Registered Shareholders at the lowest possible amount permissible under the applicable PRC laws and regulations; (ii) the business structure under which the net profit generated by the Zen-Game Shenzhen Entities is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to Tiantianlaiwan by Zen-Game Shenzhen under the Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement; and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Zen-Game Shenzhen as appointed by the Zen-Game Shenzhen Registered Shareholders;
- (d) on the basis that the Zen-Game Shenzhen Structured Contracts provide an acceptable framework for the relationship between the Company and its subsidiaries (including branch company) in which the Company has direct shareholding, on one hand, and the Zen-Game Shenzhen Entities, on the other hand, that framework may be renewed and/or reproduced, upon the expiry of the existing arrangements, or, in relation to any existing or new wholly foreign owned enterprise or operating company engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Zen-Game Shenzhen Structured Contracts; and
- (e) we will disclose details relating to the Structured Contracts on an ongoing basis.

Unwinding of the Structured Contracts

As of the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed “Structured Contracts – Termination of the Structured Contracts” of the Prospectus.

Annual Review by the Independent Non-Executive Directors and Auditor

Our independent non-executive Directors have reviewed the Structured Contracts and confirmed that:

- (a) the transactions carried out during the year ended 31 December 2021 had been entered into in accordance with the relevant provisions of the Structured Contracts;
- (b) no dividends or other distributions had been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group;
- (c) other than the Structured Contracts, no new contracts had been entered into, renewed and/or reproduced between the Group and the PRC Operating Entities during the year ended 31 December 2021; and
- (d) the Structured Contracts had been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable so far as the Group is concerned, and in the interest of the Company and its Shareholders as a whole.

Our auditor has confirmed in a letter to the Board that the transactions under the Zen-Game Shenzhen Structured Contracts and/or the Fingertip Interactive Structured Contracts have been approved by the Board, the transactions carried out during the year ended 31 December 2021 had been entered into in accordance with the relevant provisions of the Zen-Game Shenzhen Structured Contracts and/or the Fingertip Interactive Structured Contracts, and that no dividends or other distributions had been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2021 are set out in note 33 to the consolidated financial statements contained herein.

None of the related party transactions constituted a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained at least 25% of the Company's total issued share capital held by the public as required under the Listing Rules.

INDEMNITY OF DIRECTORS

The Articles of Association provide that the Directors are entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain in or about the execution of their duty in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director. The Company has purchased and maintained Directors' liability insurance during the year under review, which provides appropriate coverage for the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2021 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company in material respects.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Company has adopted the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules on the Stock Exchange as its own code of corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code throughout the year ended 31 December 2021, save for deviation from code provision A.2.1 of the Corporate Governance Code (which has been re-numbered as code provision C.2.1 since 1 January 2022). The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

Mr. Ye Sheng is both the chairman of the Board and the chief executive officer of the Group. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including another executive Director, one non-executive Director and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the Shareholders as a whole and the deviation from code provision A.2.1 of the Corporate Governance Code (which has been re-numbered as code provision C.2.1 since 1 January 2022) is appropriate in such circumstance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding Directors' securities transactions throughout the year ended 31 December 2021.

AUDITOR

There has been no change in auditors since the Listing Date. The consolidated financial statements for the year ended 31 December 2021 have been audited by Ernst & Young, Certified Public Accountants, who are proposed for reappointment at the forthcoming AGM.

On behalf of the Board

Ye Sheng

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 22 March 2022

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Below are the brief profiles of the current Directors and senior management of the Group.

DIRECTORS

The Board currently comprises six Directors, of which two are executive Directors, one is non-executive Director and three are independent non-executive Directors. The following table sets forth information regarding the Directors.

| Name | Age | Position | Date of Appointment as Director |
|--|-----|---|---------------------------------|
| Executive Directors | | | |
| Mr. Ye Sheng | 43 | Chairman of the Board, chief executive officer and executive Director | 28 August 2018 |
| Mr. Yang Min | 45 | Vice chairman of the Board, chief technology officer and executive Director | 28 August 2018 |
| Non-executive Director | | | |
| Ms. Fu Hao | 40 | Non-executive Director | 19 October 2019 |
| Independent non-executive Directors | | | |
| Mr. Jin Shuhui | 45 | Independent non-executive Director | 28 March 2019 |
| Mr. Mao Zhonghua | 43 | Independent non-executive Director | 28 March 2019 |
| Mr. Yang Yi | 43 | Independent non-executive Director | 28 March 2019 |

EXECUTIVE DIRECTORS

Mr. Ye Sheng (叶升), aged 43, is an executive Director, the chairman of the Board and the chief executive officer, responsible for overall management, strategic planning and business development of the Group.

He is also (i) the chairman of Zen-Game Shenzhen; (ii) a director of International Mobile Entertainment Co., Limited, Zen Interactive Limited, Zengame Interactive Limited, Zen World Interactive Limited, ZEN WORLD INTERACTIVE (SINGAPORE) PTE. LTD and Shenzhen Tiantianlaiwan Technology Co., Ltd.; (iii) an executive director and general manager of Zhuhai Zhangyou; and (iv) a supervisor of Hainan Tiantianlaiwan Technology Co., Ltd.* (海南天天來玩科技有限公司).

Mr. Ye has more than 16 years of experience in the technology industry. Prior to joining the Group, he was the product director of the QQ Game Products Division in Tencent Technology (Shenzhen) Company Limited an operating company which is controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700), from September 2004 to September 2010, primarily responsible for the overall strategic planning and product planning.

Mr. Ye obtained a bachelor's degree in science (theoretical and applied mechanics) from Sun Yat-sen University (中山大學), the PRC in June 2001.

Mr. Yang Min (楊民), aged 45, is an executive Director, the vice chairman of the Board and the chief technology officer, responsible for overall management, strategic planning, research and development of core technology of the Group.

He is also (i) the vice chairman of Zen-Game Shenzhen; (ii) the supervisor of Zhuhai Zhangyou and Shenzhen Tiantianlaiwan Technology Co., Ltd.; and (iii) a director of Zen-Game HK, Zen Interactive Limited, Zengame Interactive Limited, Zen World Interactive Limited and ZEN WORLD INTERACTIVE (SINGAPORE) PTE. LTD; (iv) a director and general manager of Hainan Tiantianlaiwan Technology Co., Ltd.* (海南天天來玩科技有限公司).

Mr. Yang has more than 22 years of experience in the technology field. Prior to joining the Group, Mr. Yang worked as a product development supervisor in Zhongwang Commercial Mechanics Company Limited* (中望商業機器有限公司), which is engaged in the provision of consultancy and technical services of computer software and hardware, from July 1998 to April 2003, primarily responsible for research and management related matters. From May 2003 to August 2005, he worked as a staff engineer in UTStarcom (China) Co., Ltd Shenzhen branch. From August 2005 to August 2010, Mr. Yang was the R&D director of the QQ Game Products Division in Tencent Technology (Shenzhen) Company Limited, an operating company which is controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700), primarily responsible for the research and development management of the QQ Game Products Division.

Mr. Yang obtained a bachelor's degree in automation from Southwest Jiaotong University (西南交通大學), the PRC in July 1998.

NON-EXECUTIVE DIRECTOR

Ms. Fu Hao (付郝), aged 40, is a non-executive Director.

From 2006 to 2009, Ms. Fu was the operation director of interactive entertainment department of Shenzhen Tencent Computer Systems Company Limited, which is currently under the control of a company listed on the Stock Exchange. Ms. Fu served as the project director of game department of Shenzhen Taomi Technology Co., Ltd.* (深圳市淘米科技有限公司) from 2009 to 2012. From 2012 to 2018, Ms. Fu was appointed as the deputy general manager of Shenzhen Taole Network Technology Co., Ltd.* (深圳淘樂網絡科技有限公司). Ms. Fu is currently holding various roles in the following companies:

Profiles of Directors and Senior Management

| Name of Company | Role with the Company | Date of Commencement |
|--|-------------------------------|----------------------|
| Shenzhen Decent Investment Co., Ltd. (深圳市德迅投資有限公司) | Investment operation director | Since September 2018 |
| Shenzhen Qianhai Dexun Zhisheng Venture Capital (深圳市前海德迅志勝創業投資企業 (有限合夥)) | Executive partner | Since October 2019 |
| Beijing Colorful Game Co., Ltd (北京指上繽紛科技股份有限公司) | Director | Since December 2019 |
| Beijing Yunchang Game Technology Holding Limited (北京雲暢遊戲科技股份有限公司), a company listed on the NEEQ (stock code: 834785) | Director | Since December 2019 |
| Beijing Anqu Technology Holding Limited (北京安趣科技股份有限公司), a company listed on the NEEQ (stock code: 835804) | Director | Since June 2020 |
| Shenzhen YaZhai Network Co., Ltd (深圳壓寨網絡有限公司) | Director | Since January 2020 |
| Shenzhen Baien Interactive Entertainment Co., Ltd (深圳市百恩互動娛樂有限公司) | Director | Since March 2020 |
| Illusory Competition (Suzhou) Culture Communication Co., Ltd (虛幻競技 (蘇州) 文化傳播有限公司) | Director | Since June 2020 |
| Gaide (Beijing) culture media Co., Ltd (概得 (北京) 文化傳媒有限責任公司) | Director | Since November 2020 |
| Shenzhen Longfei Jiutian Technology Co., Ltd (深圳市龍飛九天科技有限公司) | Director | Since December 2020 |

Ms. Fu obtained a master's degree in communication and information system in Wuhan University, China in June 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jin Shuhui (金書匯), aged 45, is an independent non-executive Director. He is primarily responsible for providing independent opinion and judgment to the Board.

Mr. Jin has over 16 years of experience in accounting, taxation, auditing and corporate finance. From December 2004 to June 2009, Mr. Jin worked in Deloitte Touche Tohmatsu with his last position as a senior auditor. From June 2009 to December 2010, he worked as a senior auditor in Shanghai Fengtou Investment Consultancy Company Limited (上海風投投資諮詢有限公司). From February 2011 to February 2013, Mr. Jin worked in Eunacon Perfect Alliance CPA Partnership (“**Eunacon**”) with his last position as a tax senior manager. From January 2013 to October 2017, he was the financial controller of Jiangsu Lianhai Biological Science Limited* (江蘇聯海生物科技有限公司). Since October 2017, he re-joined Eunacon as a tax senior manager, primarily responsible for audit and tax matters. Since July 2020, he served as the financial controller of Shanghai Tongan Investment Limited* (上海彤安投資有限公司).

Mr. Jin completed a course in management engineering (industrial accounting) in Anshan Iron and Steel College (鞍山鋼鐵學院) (which is now known as University of Science and Technology Liaoning) (遼寧科技大學) the PRC in July 1998. He was qualified as a certified public accountant and a certified tax agent in July 2000 and June 2001, respectively.

Mr. Mao Zhonghua (毛中華), aged 43, is an independent non-executive Director. He is primarily responsible for providing independent opinion and judgment to the Board.

From March 2001 to June 2004, Mr. Mao worked as the operation manager and factory manager in Huafu Top Dyed Melange Yarn Co., Ltd. (formerly known as Shenzhen Huafu Textile Holdings Co. Ltd.), which is engaged in the production and sale of dyeing yarn, primarily responsible for production planning and operational management. From December 2005 to March 2012, he was the chief consultant of Shenzhen Shengpu Enterprise Management Consultancy Company Limited (深圳市聖普企業管理諮詢有限公司), primarily responsible for providing consultancy services and training. Mr. Mao founded Shenzhen Shamei Textile Co., Ltd. (深圳市莎美特紡織品有限公司) in March 2012 and has been its general manager since then, primarily responsible for the daily operation and management. Since August 2014, Mr. Mao has been an executive director of Hong Kong Sumtex Textile Company Limited, primarily responsible for the operation and management of the company. Since September 2017, Mr. Mao has been an independent non-executive director of Shandong IMEGAWARE Network Technology Co., Ltd.. Mr. Mao served as an independent non-executive director of Zen-Game Shenzhen from September 12, 2017 to September 18, 2018. On 4 July 2019, Mr. Mao was appointed as an executive director and the general manager of Shenzhen Yingkai Capital Company Limited (深圳英凱資本有限公司). On 29 April 2020, Mr. Mao was appointed as the director of Huizhi International Capital Holdings Company Limited. On 20 November 2020, Mr. Mao was appointed as the director of Huizhi Group Holdings Company Limited. On 27 November 2020, Mr. Mao was appointed as the director of Funland Management Limited.

Mr. Mao obtained a master’s degree of Business Administration from Shanghai University of Finance and Economics (上海財經大學), the PRC in October 2011.

Profiles of Directors and Senior Management

Mr. Yang Yi (陽翼), aged 43, is an independent non-executive Director. He is primarily responsible for providing independent opinion and judgment to the Board.

Since July 2006, Mr. Yang Yi has been working as a professor of the school of journalism and communication of Jinan University, the PRC. Mr. Yang Yi served as an independent non-executive director of Zen-Game Shenzhen from September 12, 2017 to September 18, 2018.

Mr. Yang Yi obtained a bachelor's degree of international enterprise management from Guangdong University of Foreign Studies (廣東外語外貿大學) in June 2001 and a doctoral degree of management from Sun Yat-sen University (中山大學), the PRC in June 2006.

SENIOR MANAGEMENT

Ms. Chen Yan (陳豔), aged 44, is the general manager of the commerce department of the Group. She joined the Group in November 2013 as a business director and was promoted to the current position in August 2021, primarily responsible for marketing and development of our payment channels and distribution channels.

Ms. Chen has over 21 years of experience in the technology industry. Prior to joining our Group, she worked in Runxun Communication Group Co., Ltd.* (潤迅通信集團有限公司) as a project manager for SMS chat product planning and value-added business from August 2000 to November 2003. She also worked in A8 New Media Group Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 800), from January 2004 to May 2011 with her last position as a senior manager of mobile back-end business unit. From June 2011 to March 2013, Ms. Chen was employed as a business director of the business development department by Shenzhen Lemon Network Technology Co., Ltd., a company listed on the NEEQ (stock code: 835924), primarily responsible for marketing and business cooperation matters. From March 2013 to September 2013, she worked in Shenzhen 7th Road Technology Co., Ltd. (深圳第七大道科技有限公司), a subsidiary of 7Road Holdings Limited which is a company listed on the Main Board of the Stock Exchange (stock code: 797) as a senior business manager, responsible for the business cooperation of two mobile games.

Ms. Chen obtained a bachelor's degree in e-government from Beijing Jiaotong University (北京交通大學), the PRC in June 2011.

Mr. Zhu Weijie (朱偉傑), aged 40, is the general manager of the operation department of the Group. He joined our Group in May 2011 as a game producer. He was promoted to the director of the operation department in July 2013 and was promoted to the current position in August 2021, primarily responsible for overseeing the product operations and promotion.

Mr. Zhu has over 15 years of experience in the gaming industry. Prior to joining the Group, he worked in Tencent Technology (Shenzhen) Company Limited, an operating company which is controlled by Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 700), from July 2006 to May 2011, and was a programmer responsible for testing and development as well as back-end development of games. Mr. Zhu obtained a bachelor's degree in software engineering from Dalian Jiaotong University (大連交通大學) (formerly known as Dalian Railway Institute (大連鐵道學院), the PRC in July 2003 and a master's degree in computer software and theory from Nanjing University (南京大學), the PRC in June 2006.

* For identification purpose only

CORPORATE GOVERNANCE REPORT

The Board of Directors is pleased to report to the Shareholders on the corporate governance of the Company for the period from 1 January 2021 to 31 December 2021 (the “**Reporting Period**”).

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules as the basis of the Company’s corporate governance practices during the Reporting Period.

On 1 January 2022, the amendments to the Corporate Governance Code (the “**New Corporate Governance Code**”) came into effect and the requirements under the New Corporate Governance Code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Board will continue to review and enhance its corporate governance practice of the Company to ensure compliance with the New Corporate Governance Code and align with the latest developments.

The Board is of the view that throughout the Reporting Period, the Company has complied with the code provisions as set out in the Corporate Governance Code, save for deviation from the code provision A.2.1 as disclosed in this Corporate Governance Report regarding the segregation of the roles of the chairman of the Board and chief executive officer of the Group. The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

The Company has also established written guidelines (the “**Employees Written Guidelines**”) no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board currently comprises six Directors, consisting of two executive Directors, one non-executive Director, and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Ye Sheng (*Chairman and Chief Executive Officer*)

Mr. Yang Min (*Vice Chairman and Chief Technology Officer*)

Non-executive Director

Ms. Fu Hao

Independent Non-executive Directors

Mr. Jin Shuhui

Mr. Mao Zhonghua

Mr. Yang Yi

The biographical information of the Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 60 to 64 of this annual report for the year ended 31 December 2021.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors. Ten Board meetings were held in the Reporting Period.

Apart from regular Board meetings, the Chairman also held meeting with independent non-executive Directors only without the presence of other Directors during the Reporting Period.

A summary of the attendance records of the Directors at the Board meetings and the general meeting of the Company held during the Reporting Period is set out below:

| Name of Directors | Attendance/ Number of Meetings Board | Annual General Meeting |
|--|---|-----------------------------------|
| Mr. Ye Sheng (<i>Chairman and Chief Executive Officer</i>) | 10/10 | 1/1 |
| Mr. Yang Min (<i>Vice Chairman and Chief Technology Officer</i>) | 10/10 | 1/1 |
| Ms. Fu Hao | 7/10 | 1/1 |
| Mr. Jin Shuhui | 7/10 | 0/1 |
| Mr. Mao Zhonghua | 8/10 | 1/1 |
| Mr. Yang Yi | 8/10 | 0/1 |

Chairman and Chief Executive Officer

Mr. Ye Sheng is both the chairman of the Board and the chief executive officer of the Group. The Board believes that vesting the roles of both chief executive officer and chairman of the Board in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises five other experienced and high-calibre individuals including another executive Director, one non-executive Director and three independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code (which has been re-numbered as code provision C.2.1 since 1 January 2022) is appropriate in such circumstance.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of one year, subject to renewal after the expiry of the then current term.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director shall receive a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills.

The training records of the Directors for the year ended 31 December 2021 are summarized as follows:

| Directors | Attended Internally- facilitated Briefings or Training, Seminars, Reading Materials |
|--|--|
| Executive Directors | |
| Mr. Ye Sheng (<i>Chairman</i>) | ✓ |
| Mr. Yang Min | ✓ |
| Non-Executive Director | |
| Ms. Fu Hao | ✓ |
| Independent Non-Executive Directors | |
| Mr. Jin Shuhui | ✓ |
| Mr. Mao Zhonghua | ✓ |
| Mr. Yang Yi | ✓ |

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The emolument of the Directors is recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. The executive Directors and non-executive Director are not entitled to any fixed emolument while each of the independent non-executive Directors is entitled to a basic salary of RMB100,000 per annum, which are all subject to revision in future by the decision of the Board based on the recommendation of the Remuneration Committee.

Corporate Governance Report

In addition, each of the executive Directors, non-executive Director and independent non-executive Directors may receive a discretionary bonus as the Board may recommend. Such amount has to be approved by the Remuneration Committee. The remuneration package further includes other allowances, benefits in kind and defined contributions.

The list of the chairman and members of each Board committee is set out under “Corporate Information” on page 2 of this annual report.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Jin Shuhui, Mr. Mao Zhonghua and Mr. Yang Yi. Mr. Jin Shuhui is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the Corporate Governance Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held three meetings to review the 2020 annual financial statements and 2021 interim financial statements and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the executive Directors.

The attendance records of the members of the Audit Committee are as follows:

| Name of Members of the Audit Committee | Attendance |
|---|-------------------|
| Mr. Jin Shuhui (<i>Chairman</i>) | 3/3 |
| Mr. Mao Zhonghua | 3/3 |
| Mr. Yang Yi | 3/3 |

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Yang Yi, Mr. Ye Sheng and Mr. Mao Zhonghua. Mr. Yang Yi is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the Corporate Governance Code. The primary functions of the Remuneration Committee include determining, with delegated responsibility, or making recommendations to the Board on the remuneration packages of individual executive Directors and non-executive Director, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met once during the Reporting Period to review and make recommendation to the Board on the remuneration packages of the Directors and senior management, including grant of share options to the Directors and senior management.

The attendance records of the members of the Remuneration Committee are as follows:

| Name of Members of the Remuneration Committee | Attendance |
|---|------------|
| Mr. Yang Yi (<i>Chairman</i>) | 1/1 |
| Mr. Ye Sheng | 1/1 |
| Mr. Mao Zhonghua | 1/1 |

The remuneration of the Directors and the senior management by band for the year ended 31 December 2021 is set out below:

| Annual Income | Number of Persons |
|------------------------------|-------------------|
| Below RMB1 million | 4 |
| RMB1 million to RMB2 million | 0 |
| Over RMB2 million | 4 |

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Ye Sheng, Mr. Mao Zhonghua and Mr. Yang Yi. Mr. Ye Sheng is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, assessing the independence of independent non-executive Directors and reviewing the Board Diversity Policy.

In assessing the Board composition, the Nomination Committee would take into account, including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

Corporate Governance Report

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider candidates on merit and against the objective criteria, with due regard for the benefits diversity on the Board.

The Nomination Committee met once during the year to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring Directors standing for re-election at the AGM.

The attendance records of the members of the Nomination Committee are as follows:

| Name of Members of the Nomination Committee | Attendance |
|--|-------------------|
| Mr. Ye Sheng (<i>Chairman</i>) | 1/1 |
| Mr. Mao Zhonghua | 1/1 |
| Mr. Yang Yi | 1/1 |

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes the importance of diversity of the Board as it promotes board effectiveness and enable better decisions to be made due to the lessened risk of group thinking.

Pursuant to the board diversity policy, the Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the board diversity policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The Company aims to maintain an appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board to maintain high standards of corporate governance.

At present, the Nomination Committee considered that the Board is sufficiently diverse and selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee will review the board diversity policy and the measurable objectives at least annually to ensure the continued effectiveness of the Board.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a director nomination policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The director nomination policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience;
- Diversity in all aspects as set out in the Board Diversity Policy;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The director nomination policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the director nomination policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the Corporate Governance Code, such as the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including research and development management, sales and collection, financial reporting, human resources and information system management.

Under the Company's risk management and internal control systems, all business departments of the Company are responsible to collect information, analyze the corresponding risks and formulate the corresponding internal control system according to the risks. The internal audit department of the Group (the "**Internal Audit Department**") and the Audit Committee are responsible for evaluating the effect of risk management.

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the fraud risk and provided its findings to the Audit Committee.

The Board, as supported by the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns such as bribery, financial impropriety or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 106 to 110 of this annual report.

AUDITORS' REMUNERATION

A breakdown of the remuneration payable to the external auditors of the Company, Ernst & Young, in respect of audit services for the year ended 31 December 2021 is set out below:

| Service Category | Fees Paid/Payable RMB'000 |
|--------------------|------------------------------|
| Audit Services | 1,850 |
| Non-audit Services | — |
| Total | 1,850 |

COMPANY SECRETARY

Mr. Zhang Yong and Ms. Li Yan Wing Rita were appointed as the Company's joint company secretaries on 9 October 2018. Mr. Zhang Yong resigned as a joint company secretary of the Company with effect from 25 June 2021. Following the resignation of Mr. Zhang Yong, Ms. Li Yan Wing Rita became the sole company secretary of the Company with effect from 25 June 2021. Ms. Li Yan Wing Rita is an executive director of corporate service of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.



Corporate Governance Report

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Ms. Luo Manqing, manager of Securities Affairs Service of the Company, has been designated as the primary contact person at the Company who would work and communicate with the external parties on the Company's corporate governance and secretarial and administrative matters.

During the Reporting Period, Ms. Li Yan Wing Rita has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Articles 58 of the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should follow the requirements and procedures as set out in the Articles of Association, for convening a general meeting.

Putting Forward Proposals at General Meetings

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association. Members who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Company Secretary)

Email: ir@zen-game.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company is endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

At the 2021 annual general meeting of the Company held on 14 May 2021, the Company's Articles of Association were amended by passing of a special resolution in order to allow the Company to hold general meetings as an electronic meeting or as a hybrid meeting where the Shareholders may participate by electronic means in addition to physical attendance, and to introduce a more flexible approval threshold in respect of written resolutions of the Board.

The updated version of the Articles of Association of the Company is available on the websites of the Company and Stock Exchange.

Policies relating to Shareholders

The Company has in place a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions, operational needs, capital requirements and factors of the Company and the Group as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

Introduction

Zengame Technology Holding Limited, together with its subsidiaries (the “**Group**” or “**we**”, “**us**”, “**our**”) will prepare and release its Environmental, Social, and Governance Report (the “**ESG Report**”) on a regular basis as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to demonstrate our Environmental, Social, and Governance (“**ESG**”) performance in an open and transparent manner.

This is the third ESG Report (the “**Report**”) released by us, and will be used to address the ESG concerns of the main stakeholders of the Group, as well as showcase our ESG performance in 2021. The Report will focus on disclosures regarding environmental and social management and performance. For our corporate governance performance, please refer to the “corporate governance report” as contained in our 2021 annual report.

Scope

Unless otherwise specified, The Report will cover all business activities and operational entities of the Group. This Report covers the period from 1 January 2021 to 31 December 2021 (the “**Reporting Period**”) as indicated in our 2021 annual report.

Basis of Preparation

The Report has been prepared according to the principles regarding materiality, quantitative, balance and consistency in Appendix 27: Environmental, Social and Governance Reporting Guide of the Listing Rules (the “**ESG Guide**”) issued by the Stock Exchange. All “Comply or Explain” provisions outlined in the ESG Guide have been complied with.

Statement

Our board of directors (the “**Board**”) has reviewed and approved the disclosure of the Report, and is responsible for the reliability and truthfulness of the information contained herein. Through the Report, we hope to strengthen communications with our stakeholders and demonstrate our transparency for the purpose of sustainable environmental, social and economic development.

Description

The Report is published in both Traditional Chinese and English. For discrepancy, the Traditional Chinese version prevails. The electronic version report is available for viewing and download on our official website and the official website of the Stock Exchange.

Contact Us

Your opinions and suggestions will be highly appreciated. If you have any queries or opinions regarding the contents of the Report, feel free to contact us through following channels:

Tel: 0755-33207601
E-mail: ir@zen-game.com
Address: Room 1303-1306, Changhong Science and Technology Mansion, Science and Technology Park, Nanshan District, Shenzhen

COMPANY PROFILE

The Group is an established mobile game developer and operator. The Group has a special focus on the development and operation of card games, board games, and other casual mobile games, and has been guided by the principles of “integrity, open, cooperation and concentration” since its inception. Within the Reporting Period, we have won rave reviews from our users for our well-developed classic card and board games and other casual games. While focusing on business operations and the improvement of its commercial competitiveness, the Group has been actively shouldering its social responsibilities by creating a healthy and harmonious online game environment. Administrative measures have been further formulated in light of our impact on the environment and society, allowing us to advance our sustainable development.

Mission: Focus on players’ needs; constantly create excitement and surprise

Values: Market-oriented, user-oriented, and result-oriented

| | |
|---------------|--|
| Integrity | Maintaining our integrity as individuals, as a company, and in all our business operations |
| Open | Creating a more effective and opened organization and adopt the best from different aspects in order to keep abreast of current trends |
| Cooperation | Placing trust in our stakeholders, cooperating with them enthusiastically, building our values, and supporting mutual understanding and appreciation |
| Concentration | Focusing on achieving breakthroughs to further improve our core competitiveness |
| Innovation | Creating unique product experiences for the players through aggressive, positive innovation |

SUSTAINABLE DEVELOPMENT STRATEGY

We believe that the ability to actively focus on and enhance the management of environmental and social benefits is critical to our sustainable development. We have integrated environmental, social and governance factors into our day-to-day operation and management procedures to achieve harmonious development of economic, social and environmental benefits.



Environmental, Social and Governance Report

In order to better implement the sustainability strategy, we have established a management structure consisting of the Board, senior management and ESG representatives from departments or subsidiaries, with the Board clearly defining the responsibilities of the members at each level of the structure. The ESG working group is responsible for identifying ESG risks and submitting the corresponding ESG risks and the management measures to the Board for review. The Board makes final decisions based on the information provided by the ESG working group. The ESG management structure of the Group is as follows:

Organization or Department

Specific Responsibilities

The Board

1. Evaluate ESG significant risk issues;
2. Review ESG objectives, plans and strategies;
3. Evaluate ESG work progress;
4. Review the ESG report and assess the overall ESG working mechanism.

The ESG working group consisting of senior management, representatives from various departments and subsidiaries

1. Identify ESG risks;
2. Communicate with stakeholders regarding ESG risks;
3. Develop ESG objectives, plans and strategies;
4. Coordinate ESG management and disclosure;
5. Report ESG work progress to the Board on a regular basis.

Representatives from various departments and subsidiaries

1. Responsible for commencing specific ESG work, regularly collecting and organizing relevant information and data, and reporting to the ESG working group.

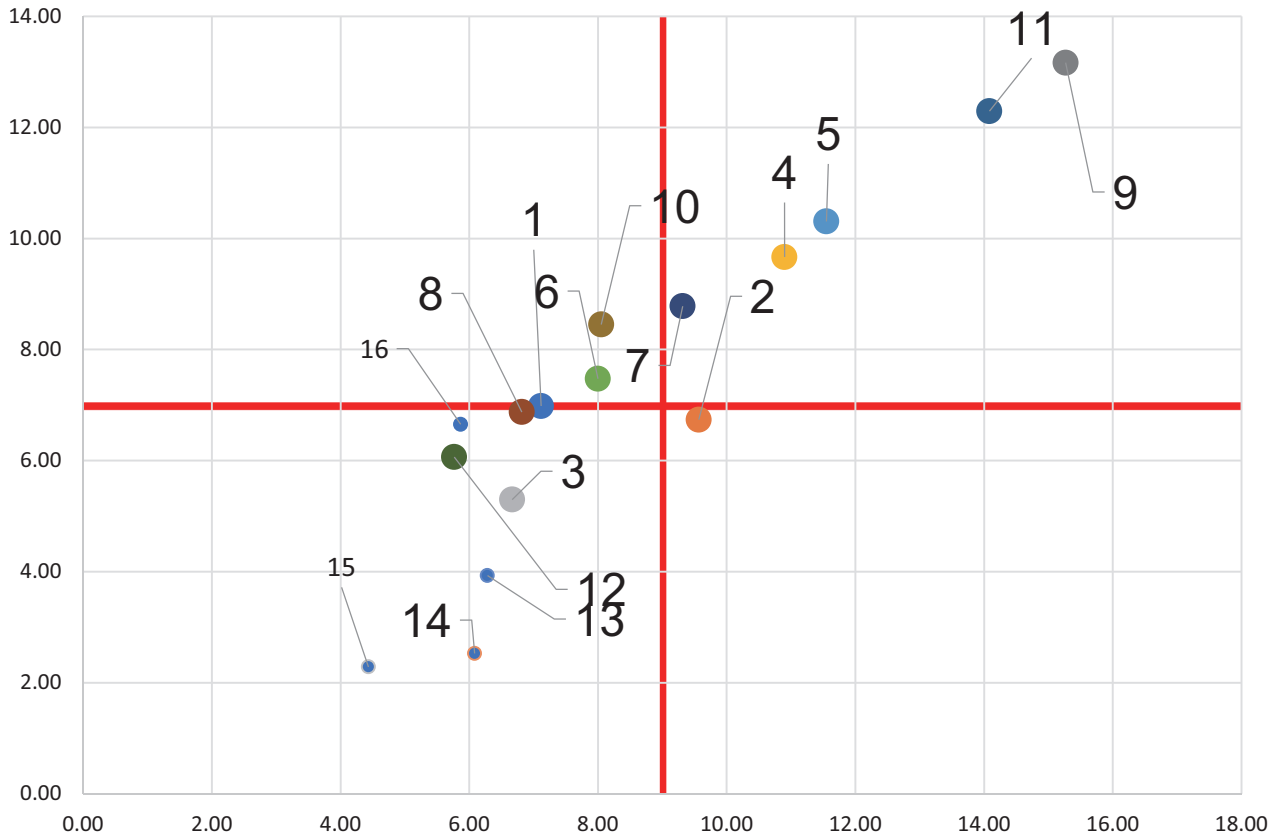
ACTIVE COMMUNICATION WITH MULTIPLE PARTIES

Within the Reporting Period, we have proactively communicated with our stakeholders, including our users, regulators, partners, shareholders, members of the Board, employees and the community, and listened carefully to their opinions and suggestions through various means. In order to collect our stakeholders' opinions and expectations on the ESG Report specifically and to reflect their concerns, we have also conducted an ESG factor materiality survey within the Reporting Period.

Stakeholder Survey Process

| | |
|--|--|
| Selection of Significant Stakeholders | The ESG working group selected the Group's most significant stakeholders as interviewees for this survey, with reference to the Company's impact on such stakeholders as well as their impact on the Company. Members of the Board, shareholders, management members, employees, users, and partners of the Group were selected as participants for this survey. |
| Material Issue Screening | Based on the fundamental principle of relevancy, the ESG working group updated the list of issues of previous year based on the contents of ESG Guide, key industry topics and company characteristics, and selected the important issues for the survey. |
| Invitation of Stakeholders to the Survey | A stakeholder questionnaire invitation was prepared based on the material issues selected, and sent to target stakeholders via the online platform. |
| Survey Result Analysis and Application | After performing an analysis on the 29,026 valid questionnaires collected, a materiality matrix was prepared, revealing the most significant ESG issues for us. The survey results indicated that the top six significant issues were innovation & development capacity, player service and communication, product quality management, data security, compliance operation and employee health and safety. |

Materiality Analysis Matrix



Issue No. Issue Description

- 1 Employment Management
- 2 Employee Health and Safety
- 3 Employee Training and Development
- 4 Product Quality Management
- 5 Data Security
- 6 Privacy Policy
- 7 Player Service and Communication
- 8 Improvement of Data Analysis Capacity

Issue No. Issue Description

- 9 Compliance Operation
- 10 Intellectual Property Rights Protection
- 11 Innovation & Development Capacity
- 12 Maintaining Good Partnerships with our Partners
- 13 Anti-Corruption
- 14 Contribution to the Society
- 15 Environmental and Natural Resource Management
- 16 Labour Standards

BUILDING A FAVOURABLE PRODUCT PLATFORM

Creating brilliant game products and establishing favourable online gaming environment is a critical cornerstone for the Group's development. As a responsible game developer and operator, we are committed to the improvement of our users' gaming experience, striving to provide them with the highest-quality game content. We deeply value and attach great importance to the prevention of network-related risks to ensure the stability of game operations. We have also made greater efforts to strengthen intellectual property rights management in order to ensure that the Company's legal rights and interests are protected accordingly. We focus on guiding minors with a healthy manner, in order to promote the green development of the game industry. We improve our data analysis capacity, and further enhance our operation efficiency. We stay in contact with partners and promote co-development of the supply chain.

IMPROVING PLAYERS EXPERIENCE

We have strengthened the quality assurance of our products and services by implementing multiple quality inspection procedures and real-time monitoring after product launch, aiming to bring players a quality product experience. Our testing procedures before product launch include internal testing by our research and development team, internal experience at the Company level and external gray scale testing before the launch. We have addressed all the issues identified in the testing before presenting the product to all players. After product launch, we have conducted real-time monitoring of game operation through third party tools, collected product abnormalities, and arranged experts to handle such abnormalities in a timely manner.

We have kept in lockstep with market trends and remained user-cantered. Through attracting talent and strengthening external cooperation, we have actively incorporated new concepts into our game development and upgrading processes, endeavoring to bring players better experience through innovation. Meanwhile, we have focused on every detail of our games by implementing high-speed iteration procedures and agile development. We have performed training to enhance our employees' professional competency and business proficiency, and encouraged internal innovation through game development and maintenance.

In addition, to further allow users to provide timely feedback to us, we have established channels for digital voice calls, real-time online feedback and external feedback channels, and have announced the above channels on our website or in the game. We have classified feedback from users into two categories, being payment-related complaints and game complaints, and optimized the user feedback handling procedures to enhance handling efficiency:

User Feedback Handling Procedure and Efficiency

Identifying the Type of User Feedback Upon receipt of the user feedback, the first step is to identify the type of user feedback. Subsequent handling procedures for payment-related complaints and game complaints are then adopted accordingly.

Handling Payment-related Complaints Handling procedure: Payment-related problems are classified into top-up problem and refund problem, we carefully verify top-up and user data against our records and handle the issue accordingly after corresponding communication with the user according to the feedback. In cases of misoperations performed by underage users or refund applications performed after a user's first top-up, we handle each case on its own merits after performing thorough verification procedures, and disable the top-up features of corresponding accounts as needed after performing communications with clients.

Time required for processing: For top-up problems, we will handle within 1 working day. For problems related to underage user registration, we will handle within 24 hours.

Handling Game Complaints Handling procedure: Game complaints are classified into bug complaints, functional queries, experiential suggestions, game cheating complaints, and game account complaints, and each is handled according to its category. When handling complaints, we provide replies as quickly as possible.

Time required for processing: For general bug complaints and feedbacks, we will reply to user queries on a close-loop basis within 3 working days. For material complaints on risk control, we will handle within 24 hours.

Within the Reporting Period, we received a total of 28 effective complaints from users via the "315 Consumer Public Service Platform". After receiving the above information, the Company actively explained, communicated and coordinated with the users, and all the above complaints have been addressed and obtained 8 points for the consumer evaluation index.

REDUCING NETWORK SECURITY RISKS

In accordance with the guidelines on healthy and safe network environments as set forth in the Data Security Law, Personal Information Protection Law, Network Security Law, Information Security Technology – Personal Information Security Specification, and other laws and regulations, we have prepared internal management regulations to reduce network-related risks, including the Personal Information Protection System of Shenzhen Zen-Game Technology Co. Ltd. (深圳市禪遊科技股份有限公司個人資訊保護制度) and the Prevention and Disposal System for Illegal and Harmful Information on the Internet of Shenzhen Zen-Game Technology Co. Ltd. (深圳市禪遊科技股份有限公司互聯網違法有害資訊的防範與處置制度).

According to the above regulations, the Group has taken the following actions to implement preventive measures to maintain network safety:

- Established the computer network safety steering group for regulating network safety and appointed safety specialists to monitor network information and perform safety checks on a regular basis;
- Required network administrators to promptly report any external malicious attacks and other criminal offenses to the information centre and take proper measures to protect the system;
- Established a virus detection and network security loophole detection system and designated the information centre to conduct regular checks on software and hardware equipment to detect and resolve problems in a timely manner.

In addition, in light of the personal information protection regulations provided in the Network Security Law, the Guidelines for Internet Personal Information Security Protection, and other laws and regulations, we have further drawn up internal policies including the Personal Information Protection System of Shenzhen Zen-Game Technology Co. Ltd. (深圳市禪遊科技股份有限公司個人資訊保護制定) in order to standardize personal information leakage risk prevention and control measures:

- Established a network and information security department to manage network information-related responsibilities, including but not limited to publicizing computer network security related laws and regulations, formulating network security management policies, and conducting information security reviews, education, and training;
- Appointed computer security officers to formulate computer information network security management regulations, tested the safe operation of computer information systems, and conducted audit inspections on information released by corporate networks and websites;
- Standardized personal information protection behaviours based on the principles of legality and compliance by using stringent regulations regarding information collection, storage, usage, sharing, transfer, deletion, and disclosure.

Environmental, Social and Governance Report

Our business model allows us to collect and process a large amount of user data. We have issued the User Service Agreement and Privacy Protection Policy on the Company's website and in specific game products, which explains the collection, use, sharing, storage and protection of user data, and provides users with corresponding communication channels. We have protected users privacy in strict accordance with the requirements as stipulated in relevant laws and regulations.

In case of network and information security emergencies, we have prepared emergency measures for natural disasters, physical security incidents, information security incidents, illegal and harmful information transmission incidents, and other incidents that may exert a significant impact on the Group and its operations. These are formulated in accordance with the principles and procedures provided in the Network and Information Security Emergency Plan of Shenzhen Zen-Game Technology Co. Ltd (深圳市禪遊科技股份有限公司網絡與資訊安全應急處置預案). Post-incident responses, investigations, evaluations, supervision, and management are conducted per the subsequent procedures set forth in the Emergency Plan.

Within the Reporting Period, we strictly abode by the Network Security Law and other laws and regulations related to the prevention of network risks and enhanced information protection, and had no network security or personal information leakage incidents related to the operated games.

PROTECTING INTELLECTUAL PROPERTY RIGHTS

To protect the Company's intellectual property rights and encourage innovation, the Group has formulated the Intellectual Property Right Management System (知識產權管理制度), through which we have standardized the intellectual property right management procedures and the responsibilities of each department. The Company has attached great importance to the application and protection of software copyrights, copyrighted games, trademarks and patents corresponding to the Company's products. For the products at different stages, the Company has adopted different management measures in the management of intellectual property rights.

- For newly developed games, the corresponding departments of the Company confirms that whether the tentative game name has been previously used, copyrighted, and registered with a trademark at the early stage of development, and initiates software copyright, publication numbers and trademark applications in a timely manner;
- For copyrighted games, we carry out regular check on the corresponding publication numbers and trademarks, and immediately initiate trademark application procedures for those with publication numbers but without trademarks to prevent trademark squatting;
- For newly launched game effects, we will submit registration in a timely manner to protect the copyright.

Meanwhile, the Company also pays attention to the protection of acquired intellectual property rights. The Company also closely follows whether there are any games developed by other entities which are highly similar to our games or are using our trademarks on the promotion platforms, and in such cases we immediately file complaints with the relevant authorities to protect our own intellectual property rights.

IMPROVEMENT OF DATA ANALYSIS CAPACITY

As building strong data analysis capability has also been vital to the Group's business activities, we have established a dedicated data analysis group with technical support from our technology department. For our day-to-day operations, we have set up a Key Performance Indicator (KPI) system¹ and further assessed the effect of game improvement and advertising by collecting and analyzing the impact of game improvement and advertising on the KPI system, thereby formulating appropriate game optimization and business development strategies based on such information.

We collect and analyze changes in data to build operational forecasting models based on quantitative data to guide our next operational activities, and further optimize the model according to the next operation result data. The repetition of such processes has resulted in a gradual enhancement in our refined operation capability, which enables us to implement game development, optimization, innovation and precise placement, and improve comprehensive revenue more effectively.

STRENGTHENING THE MANAGEMENT OF SUPPLIER RELATIONSHIPS

Establishing positive and stable partnerships with suppliers has also been a significant factor in the success of our business. Before ensuring cooperation with suppliers, we conduct due diligence checks on the suppliers by various means (including checking business registration information, operational qualification registration and industry reputation) in order to investigate the legality of supplier entities, review whether their business involves legal disputes or safety hazards, whether their employees engage in corruption or bribery, product or services quality, and what impact they exert on society, etc. On such basis, we also study the privacy policies and user information protection systems of our platform suppliers². For suppliers of office supplies and office equipment, we examine their environmental protection and energy-saving certifications and give preference to products that are more environmentally friendly and energy-saving. The management of the Company conducts a final review based on the information obtained.

After establishing cooperation with suppliers, we have commenced supplier management primarily through the following approaches:

- We have designated personnel to compare the backend data of different platforms with that of our OSS³, and to investigate and verify any differences;
- We have conducted occasional market price comparisons to verify the transaction procedures and avoid corrupt practices;
- We have carried out regular on-site visits to communicate with suppliers to understand the latest situation and maintain a smooth communication channel;
- We have designated personnel to check whether any products on the platforms plagiarize our products so as to protect the intellectual property rights of the Company.

Within the Reporting Period, we have maintained close communication with 160 Chinese suppliers and 32 overseas suppliers. Through the statistical optimization of our products and using data to guide our marketing and maximize resource utilization, we fully realize mutually beneficial cooperation.

¹ The KPI system sets and assessed specific key performance indicators to provide data support for evaluation and analysis.

² Platform suppliers are our major partnering suppliers.

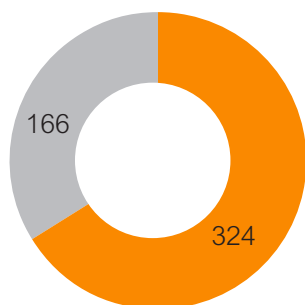
³ OSS is short for Operation Support System.

BUILDING AN INNOVATIVE DEVELOPMENT TEAM

We recognize that the success of an enterprise is inseparable from its employees at all levels. Building development and management teams with innovative mindsets has been the Group's greatest guarantee for its continuous improvement of product quality and provision of diversified products. We have observed the employee right protection provisions set forth in the Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China, and have further introduced additional employee management policies based on industry and business needs, to further standardize employee management, striving to provide our employees with a standardized, orderly, fair and comfortable working environment to continuously improve their satisfaction and happiness and lay the solid foundation for building an innovative development and management team.

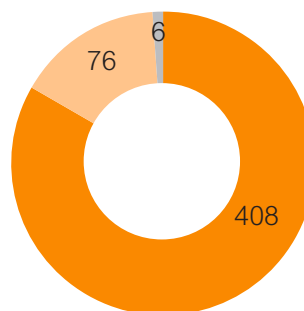
As of the end of the Reporting Period, the Group employed 490 persons, all of whom are full-time employees working in Guangdong Province, the PRC.

NUMBER OF EMPLOYEES BY GENDER



MALE EMPLOYEES FEMALE EMPLOYEES

NUMBER OF EMPLOYEES BY AGE GROUP



30 AND UNDER 31 TO 40 41 TO 50

Within the Reporting Period, we lost 242 employees to all causes, generating an employee turnover rate of 33%. The turnover rate of employees by gender, age group and geographical region is shown below:

| EMPLOYEE TURNOVER AND TURNOVER RATE BY GENDER | NO. OF OUTGOING EMPLOYEES | TURNOVER RATE (%) |
|---|---------------------------|-------------------|
| MALE EMPLOYEES | 155 | 32% |
| FEMALE EMPLOYEES | 87 | 34% |

| EMPLOYEE TURNOVER AND TURNOVER RATE BY AGE GROUP | NO. OF OUTGOING EMPLOYEES | TURNOVER RATE (%) |
|--|---------------------------|-------------------|
| 30 AND UNDER | 219 | 34% |
| 31 TO 40 | 21 | 25% |
| 41 TO 50 | 2 | 29% |

| EMPLOYEE TURNOVER BY GEOGRAPHICAL REGION | NO. OF OUTGOING EMPLOYEES | TURNOVER RATE (%) |
|--|---------------------------|-------------------|
| GUANGDONG PROVINCE | 242 | 33% |

STANDARDIZING RECRUITMENT AND EMPLOYMENT MANAGEMENT

We have formulated the Recruitment Management System (招聘管理制度) to standardize the recruitment practices of the Group. In the recruitment process, we have based our major recruitment criteria on the principles of “Appointment by Merit” and “Selection by Virtue”, and have placed equal emphasis on the twin tenets of virtue and talent. In addition, we have also clarified the basic principles of “legality” and “equality”, regulating that the recruitment processes of the Company must comply with the provisions of relevant laws and regulations in the PRC. Child labour, forced labour and other illegal labor are banned, and no discriminatory selection in recruitment shall be performed on the basis of gender, race, skin colour, age, religion, nationality, or other factors.

The Group’s recruitment consists of the six steps as follows: first a recruitment application is submitted by the employing department, such application is reviewed by the management, then recruitment information is released, interviews are arranged, secondary interviews are conducted, and a final evaluation is performed. We conduct background checks on the identity and educational backgrounds of the applicants during the recruitment process in order to prevent the employment of child labourers and other illegal workers. Within the Reporting Period, we have complied with the Labour Law of the People’s Republic of China, and other recruitment-based laws and regulations, with no violations being created in respect of recruitment management, forced labour, or child labour.

To standardize the Group’s employment management practices and provide a basis for the protection of employees’ rights and interests, we have formulated the Employee Handbook, the Attendance Management Procedure, the Remuneration and Benefit Management System, the Performance Management System, the Separation Management System, the Job Adjustment Management System (員工手冊、考勤管理規程、薪酬福利管理制度、績效管理制度、離職管理制度、崗位調整管理制度) and other management regulations. Guided by these standards, we have specified our requirements for elements of employment management including remuneration, benefits, working hours, holidays, dismissals and promotion.

Remuneration

We have established a remuneration management system based on the principles of motivation and equality, and have provided employees with appropriate short-term, medium-term, and long-term incentives. These incentives include but are not limited to performance bonuses, year-end bonuses, a restricted stock bonus plan, etc. Remuneration is adjusted on an annual basis by the Company according to work performance of employees, performance assessment, current labour market conditions, business operations of the Company and other factors to ensure that we can provide employees with market-competitive remuneration.

Benefits

In addition to the social insurance and housing provident funds required by law, we have further provided employees with a variety of benefits, such as supplemental commercial insurance, annual physical examinations and annual vacation trips. We have also provided eligible employees with interest-free housing loans to enable employees to enjoy better life and work. The Group has also provided major holiday gifts, birthday gifts for employees and financial supports for team building activities in departments.

Working Hours

The Group has adopted an 8-hours-per-day, 5-days-per-week working system.

Holidays

We deeply care about our employees' physical and mental health. In addition to statutory holidays, we have also provided employees with paid leaves such as annual vacation days, seniority leave, sick leave, marital leave, maternity leave, paternity leave, pregnancy check-up leave, miscarriage leave, breastfeeding leave, work-related injury leave, bereavement leave, etc. To promote work-life balance, we have encouraged to employees to make appropriate vacation arrangements.

Dismissals

In the event that employees are not qualified for a given job after being provided with training or position transfers, or receive a performance assessment result of C and no improvement has been made even after an improvement plan has been put in place, or are unable to perform their labour contract due to objective factors, or in case of other circumstances provided by law, we will dismiss these employees according to the relevant regulations. In case of violations of rules by employees, we will classify such violations into different levels according to the degree of impact or damage, and give written warnings, notice of criticism, demerits or even dismissal, etc. In case of violations of laws or regulations by employees, we will dismiss the employees involved and hand them over to the relevant judiciary authorities.

Promotion

Promoting employees and selecting game talent to higher positions is a vital incentive measure of the Company. The Company offers all employees a promotion path with priority over external personnel. When there is a job vacancy within the Company, we will give priority to internal staff to provide them with promotion opportunities. We have established an adequate performance assessment index system, and evaluate our employees on a regular basis. When promoting employees, we take into account their previous performance assessment results to ensure the fairness and reasonableness of the promotion.

Within the Reporting Period, the Group's employee management system has conformed with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other laws, and has not violated any employee management laws or regulations.

PROVIDING SAFETY AND HEALTH SUPPORT

We are committed to providing a safe, healthy and comfortable working environment for all employees. We have taken various measures to protect the health and safety of our employees in accordance with the Law on the Prevention and Control of Occupational Diseases of the People's Republic of China and other relevant laws and regulations, and reminded employees to concern for their own health: We have equipped with corresponding fire-fighting facilities at office premises, and regularly disinfected and cleaned the office premises to ensure a safe office environment. We have set up automatic snack machines in the Company, and the reception desk of the Company always has medicines for common diseases available for employees in need. We have installed fitness equipment, massage chairs and entertainment facilities in the public rest area, and regularly hold various chess and card competitions for employees to relax in time. We provide free breakfast and dinner with balanced nutrition and regular afternoon tea with fruits to ensure that employees get enough nutrition. The Company have organized annual trips for employees to allow them to relax both physically and mentally and alleviate to the pressure of their work. The Company promotes staff to organize badminton, soccer, basketball and other staff club activities and provides corresponding funds, so as to cultivate staff's awareness of sports and help them to strengthen their physical fitness. We also organize all employees to participate in a comprehensive physical examinations annually, and invite experts to provide employees with health consultation services on-site, so as to help them better understand their own physical conditions.

During the Reporting Period, we have provided a healthy and safe working environment for our employees and have abided by the Law on the Prevention and Control of Occupational Diseases of the People's Republic of China and other relevant laws and regulations. There have been no work-related injuries to employees, and there have been no work-related deaths in the past three years.

SUPPORTING SPECIALIZED EMPLOYEE DEVELOPMENT

The talent of employees is a valuable asset of the Company. The growth of employees can promote the development of the Company. We have established the Training Management System (培訓管理制度), which clearly defines departmental responsibilities, training types, training plans, training implementation and effect evaluation, in order to standardize training procedures, develop human resources, improve employee quality, thereby achieve sustainable development of employees and the Company. Our training methods are divided into internal training and external training. Internal training means inviting internal senior personnel or external lecturers to provide training for employees within the Company, while external training means employees go out for training. We encourage internal talents to become internal instructors and offer corresponding teaching incentives. We actively search for suitable external training and encourage employees to participate in, and provide financial support for external training.

Environmental, Social and Governance Report

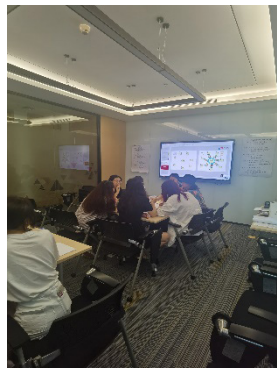
In addition, the Group focuses on providing different types of training for different levels of employees. For example, we provide induction training for new employees, which mainly focuses on corporate documents, company system and general skills courses to help new employees get familiar with the working environment quickly. We also arrange special instructors for probationary employees to conduct corresponding counseling, which mainly covers business processes, professional knowledge and skills, and guidance for solving difficult problems, so as to further help new employees get familiar with the workplace quickly. For employees at management level, we organized special training workshop to enhance employees' team management abilities from aspects including training sessions, self-improvement and practice.

We emphasis on the statistical analysis of the training effect. After the training is completed, the HR and Administration Department will collect feedback on the training effect through different forms such as assessment, debates, interviews and questionnaires according to the assessment requirements in the training plan, and conduct an overall assessment and summary of the training program based on the assessment results for subsequent improvement.

cocos creator 3.x Shadow and Illumination



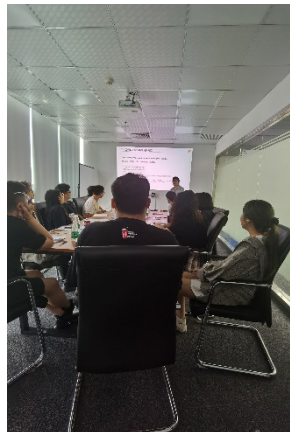
Corporate Culture



Business Mindset



OKR Goal Management



The Group's employee training data within the Reporting Period is shown in the table below:

| Proportion of Trainees by Gender and Average Training Hours | Proportion of Trainees (%) | Average Training Hours (hour) |
|--|-----------------------------------|--------------------------------------|
| Male employees | 96% | 3.0 |
| Female employees | 84% | 2.7 |

| Proportion of Trainees by Employee Category and Average Training Hours | Proportion of Trainees (%) | Average Training Hours (hour) |
|---|-----------------------------------|--------------------------------------|
| Senior management | 33% | 2.0 |
| Middle management | 57% | 3.25 |
| Grassroots employees | 100% | 5.1 |

STRICTLY MANAGING BUSINESS OPERATIONS

Strict business operation administration is the foundation of our success as a game developer and operator, and provides the major measure to strengthen corporate governance and internal control, to reduce operational risks, and to standardize daily business operations. We have arranged staffs to regularly collect information from the industry and regulatory authorities and make internal reports. On this basis, we have strengthened our compliance construction, standardized the daily management of our office and continuously improved our internal operation management.

Preventing Minors from Indulging

In order to protect the physical and mental health of online game users and youngsters, we have built an anti-addiction system for underage users in accordance with the requirements and specifications under the Law on the Protection of Minors of the People's Republic of China, the Policies on Internet Safety for Children and other laws and regulations on the protection of minors from getting addicted to games, and applied the system to our games, while introducing the “double reduction” policy on the entire game:

- Strictly control the user's account real-name registration and login. Online games are fully connected to the real-name verification system of online game addiction prevention from the National Press and Publication Administration, all the users must use the real and effective identity information to register the game account and log in. It is not allowed to provide game service in any form to users who do not register and log in with their real names.
- Strictly control the duration and time of online games for minor users. Under the system, minors are only allowed to use the online game service for an hour from 20:00 to 21:00 on Friday, Saturday, Sunday and statutory holidays, other than that is forbidden to provide online games to the minors at any other time or in any form;
- Regulate the spending behavior of underage users. Minors under the age of 12 are strictly prohibited from participating in in-game paid activities.

During the Reporting Period, our anti-addiction mechanism for minors operated well and did not violate the Law on the Protection of Minors, the Policies on Internet Safety for Children and other laws and regulations of the People's Republic of China.

COMPLIANCE WITH ADVERTISING ACTIVITIES

The legal and compliance of advertising activities is an important guarantee for our successful operation. During the Reporting Period, we promoted our games through platforms such as “WeChat”, “ByteDance” and “Kuaishou” on the one hand, and received advertising revenue through accessing the advertising SDKs of our partners such as “騰訊優量匯”, “穿山甲廣告聯盟”, “快手廣告聯盟” and “Mobvista” on the other hand. When developing advertising materials for our games or undertaking external advertising, the Group will focus on two factors: firstly, the advertising materials must comply with the Advertisement Law of the People's Republic of China and other laws and regulations related to product promotion; secondly, the content of the advertising materials must comply with the promotional requirements proposed by the suppliers of various platform, and must not infringe the legitimate rights and interests of the third parties. During the process of internal audit, if any of these requirements are not abided by, we will promptly request for rectification until all the contents of the advertising materials fully comply with the above requirements.

During the Reporting Period, all of the Group's advertisements were in compliance with the requirements of the Advertisement Law of the People's Republic of China and other laws and regulations, and no illegal incidents related to advertising have occurred.

CONSOLIDATING THE FOUNDATION OF LEGAL COMPLIANCE

While paying attention to the compliance of game operation, we also emphasizing the management of internal corruption and other irregularities. According to the provisions regarding corruption, bribery, extortion, fraud, and money laundering set forth in the Criminal Law of the People's Republic of China, the Anti-unfair Competition Law of the People's Republic of China, the Supervision Law of the People's Republic of China, and other national laws, we have formulated an Anti-corruption and Whistleblowing System, aiming to establish an effective mechanism to prevent and investigate fraud, strengthen corporate governance and internal control, reduce risks, regulate business practices, safeguard the legitimate rights and interests of the Group, so as to ensure the sustainable, stable and healthy development of the Group. We also regulated the code of conduct for our employees in our Employee Handbook.

We designated the internal audit department as the standing anti-corruption organ and announced whistleblowing hotlines, e-mail addresses, and other whistleblowing channels. Whistleblowing complaints will be investigated by an investigation team composed of the members of the audit department and management personnel of relevant departments. Under special circumstances, external experts may be hired to join the investigation. After the investigation is complete, the standing anti-corruption organ will feed the results back to the whistleblower, and file a report specifying the result of the whistleblowing complaint and investigation.

In addition, cases of fraud and non-compliance are delivered to our directors for their study in order to raise their awareness of anti-fraud. We included the Business Ethics Responsibility or similar clauses in important contracts with our partners, expecting both parties to jointly resist commercial bribery or other improper transactions. We promoted anti-fraud to employees and strengthened employees' awareness of anti-fraud by sending cases, induction training for new employees, and distributing the Anti-corruption and Whistleblowing System. We require employees at sensitive positions to sign the Employee Anti-Commercial Bribery Pledge to explain the definition of corrupt practices and how to deal with non-compliance with details, in order to further reduce the risk of corruption.

Within the Reporting Period, the Group and its employees strictly abode by the Criminal Law of the People's Republic of China and other relevant laws and regulations, and no lawsuits or violations related to corruption, bribery, extortion, fraud, and money laundering were committed.

STANDARDIZING DAILY OFFICE OPERATIONS

As an enterprise principally engaged in game software development and operation, the resources consumed during our daily operations primarily consist of electricity, potable water and office supplies. Except a small amount of air pollutants⁴ and solid waste discharge, we have exerted no other significant impact on the environment. We are aware of the adverse impact of climate change on the Group's stable operations, and we are highly concerned about the impact of extreme weather on the safety travel of our employees. Our administration department has formulated countermeasures for our employees to work from home or to postpone work during extreme weather according to the government's guidelines. In addition, we have been actively responding to the government's call to ensure "green" operations by incorporating the concept of energy conservation into our daily operations.

- Putting up posters on electricity saving in office areas, promoting to employees to turn off lights and air conditioners after work, and the temperature of air conditioners recommended not be lower than 26 degrees Celsius;
- Encourage employees to conserve water and provide feedback to the property on irregularities in water usage timely;
- Encourage double-sided printing, strengthen OA construction to promote paperless office and reduce paper consumption;
- Prioritize the purchase and use of energy-saving and environmentally friendly office equipment;
- Non-hazardous wastes⁵ like office waste and domestic waste have been placed in designated areas for standardized disposal by the property management company;
- For computers set to be scrapped, the IT Department will re-assemble them before scrapping and initiate the scrapping process if the computers cannot be re-assembled for recycling and disposal by a qualified third party;
- Hazardous wastes like ink cartridges, toner cartridges, and electronic products will be recycled and disposed of by qualified suppliers;
- Sewage produced by toilets and cleaning processes will be collected by the municipal sewage pipeline network for standardized disposal.

⁴ Air pollutants are primarily produced by the use of vehicles.

⁵ As no recycling data is registered by the property management company, the amount of non-hazardous waste cannot be provided except for paper.

The Group will continue to optimize the above energy saving and environmental protection measures and adopt new measures to further implement our green operation concept in a timely manner. We expect that our emission intensity and resource usage intensity will be gradually reduced in the next three years through strict implementation of the above measures.

| Summary of Key Performance Indicators at the Environmental Level | | | | |
|--|---|--------------------|---------------|---------------|
| Item | | Unit | 2020 Quantity | 2021 Quantity |
| Air Pollutants ⁶ | NOx Emissions | Kg | 1.80 | 2.38 |
| | SOx Emissions | Kg | 0.16 | 0.21 |
| | CO Emissions | Kg | 48.76 | 64.40 |
| | PM10 (Including PM2.5) Emissions | Kg | 0.32 | 0.42 |
| Greenhouse Gases ⁷ | Scope I Emissions | MT | 24.26 | 32.15 |
| | Emission Density ⁸ | MT/Vehicle | 3.03 | 2.92 |
| | Scope II Emissions | Kg | 140,076.67 | 176,964.86 |
| | Emission Density ⁹ | Kg/m ² | 59.30 | 37.02 |
| Non-hazardous Wastes | Waste Paper Generation ¹⁰ | PCE | 75,000 | 2,000,000 |
| Hazardous Wastes | Volume of Waste Ink Cartridges Disposed of | PCE | 18 | 14 |
| | Volume of Waste Toner Cartridges Disposed of | PCE | 6 | 2 |
| | Volume of Waste Electronic Products Disposed of | PCE | 45 | 95 |
| Water Resources ¹¹ | Volume of Municipal Water Used | MT | 1,903.49 | 1,004.90 |
| | Volume of Bottled Drinking Water Used | MT | 48.76 | 73.16 |
| | Total Use Density | MT/m ² | 0.83 | 0.23 |
| Purchased Electricity | Use Volume | KWH | 265,749.71 | 335,733.00 |
| | Use Density | KWH/m ² | 112.51 | 70.24 |

⁶ The air pollutant emissions are calculated as per the *First National Pollution Source Census Manual of Emission Coefficients of Urban Source Pollution Products* released by the First National Pollutant Source Census Steering Group Office of the State Council. The air pollutant emissions have slightly increased due to the increase in the number of vehicles held by the Group in 2021, but the total air pollutant emissions are still extremely small that the density is not calculated.

⁷ Scope I Emissions are calculated as per the *Guidelines for Accounting and Reporting Greenhouse Gas Emissions of Public Building Operation Enterprises (Trial)* released by the Department of Climate Change in National Development and Reform Commission; Scope II Emissions are calculated as per the *2011 and 2012 China Regional Grid Average Carbon Dioxide Emission Factors* released by the Department of Climate Change of the National Development and Reform Commission.

⁸ This density calculation is based on the denominator of a total of 8 vehicles in 2020 and 11 vehicles in 2021 held by the Group.

⁹ The density calculation here and hereunder is based on the denominator of the office area of all the Group operational entities totaling 2,362 m² in 2020 and 4,780 m² in 2021.

¹⁰ The volume of waste paper and toner cartridges are inferred based on the amount purchased within the Reporting Period. The volume of waste paper, ink cartridges, toner cartridges, and electronic products is so small that the density is not calculated.

¹¹ Water consumed in the daily office work of the Group consists of domestic tap water provided by the municipal pipeline network and drinking water purchased from suppliers. We have no difficulty in accessing this water.

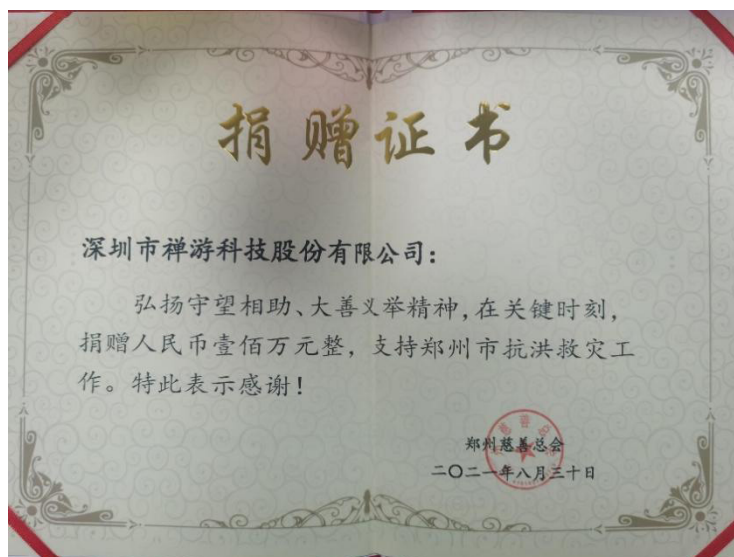
Environmental, Social and Governance Report

During the Reporting Period, the Group has strictly complied with the requirements of the Environmental Protection Law of the People's Republic of China and the Water Law of the People's Republic of China and other relevant laws and regulations, thus, we have not been penalized for environmental protection issues.

UNDERTAKING CORPORATE SOCIAL RESPONSIBILITIES

The Group has always kept its responsibilities as a corporate social citizen in mind when developing its business operations, and we have also actively carried forward fine Chinese traditions such as respecting the old, caring for the young, and supporting the disadvantaged and physically challenged. Based on the information gained from the news, the internet, and advocacy groups, the Group has learned of the difficulties facing the poverty areas and disaster sites. Besides, we returned the community and showed our care through ways of donations.

In July 2021, several places in Henan were hit by torrential rain, we rushed to help Henan in time and donated through public channels to support the procurement of emergency relief supplies and the post-disaster reconstruction to make a contribution.



We are concerned about the issue that children in China have adequate clothing and food, therefore, we donated to the China Social Welfare Foundation, hoping children have fresh and free lunch and free from feeling hungry during break time.



During the Reporting Period, Zengame Technology invested a total of RMB1,020,000 in the above charitable activities.

APPENDIX: INDEX OF THE ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT CONTENT

| Aspect A1: Emissions | As Disclosed in the Relevant Sections of the Report or Explanations | |
|-------------------------|---|---------------------------------------|
| 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. | Standardizing Daily Office Operations |
| KPI A1.1 | The types of emissions and respective emissions data. | Standardizing Daily Office Operations |
| KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Standardizing Daily Office Operations |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Standardizing Daily Office Operations |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Standardizing Daily Office Operations |
| KPI A1.5 | Description of emission target(s) set and steps taken to achieve them. | Standardizing Daily Office Operations |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Standardizing Daily Office Operations |

| Aspect A2: Use of Resources | | |
|---|--|--|
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | Standardizing Daily Office Operations |
| KPI A2.1 | 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). | Standardizing Daily Office Operations |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Standardizing Daily Office Operations |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | Standardizing Daily Office Operations |
| KPI A2.4 | 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. | Standardizing Daily Office Operations |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Not applicable to the industry in which the Group is active |
| Aspect A3: The Environment and Natural Resources | | |
| General Disclosure | Policies on minimising the issuer's significant impacts on the environment and natural resources. | The Group exerts no significant impact on the environment or natural resources |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | The Group exerts no significant impact on the environment or natural resources |
| Aspect 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. | Standardizing Daily Office Operations |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to address them. | Standardizing Daily Office Operations |

| Subject Area B – Social | | |
|--|---|---|
| Employment and Labour Practices | | |
| Aspect 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. | Standardizing Recruitment and Employment Management |
| KPI B1.1 | Total workforce by gender, employment type (for example, full-or part-time), age group and geographical region. | Building an Innovative Development Team |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Building an Innovative Development Team |
| Aspect 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. | Providing Safety and Health Support |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | Providing Safety and Health Support |
| KPI B2.2 | Lost days due to work injury. | Providing Safety and Health Support |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | Providing Safety and Health Support |
| Aspect B3: Development and Training | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Supporting Specialized Employee Development |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Supporting Specialized Employee Development |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Supporting Specialized Employee Development |

| Aspect 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. | Standardizing Recruitment and Employment Management |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Standardizing Recruitment and Employment Management |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Eliminating all possibilities of child and forced labour during recruitment, the Group had no violations of this type. |
| Operating Practices | | |
| Aspect B5: Supply Chain Management | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Strengthening the Management of Supplier Relationships |
| KPI B5.1 | Number of suppliers by geographical region. | Strengthening the Management of Supplier Relationships |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Strengthening the Management of Supplier Relationships |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Strengthening the Management of Supplier Relationships, Consolidating the Foundation of Legal Compliance |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Strengthening the Management of Supplier Relationships |

| Aspect 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. | Improving Players Experience, Reducing Network Security Risks, Preventing Minors from Indulging, Compliance with Advertising Activities |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | The Group engages in no recall of products in its business activities. |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Improving Players Experience |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Protecting Intellectual Property Rights |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Improving Players Experience The Group's games do not involve recalling programs. |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Reducing Network Security Risks |
| Aspect B7: 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 the prevention of bribery, extortion, fraud and money laundering. | Consolidating the Foundation of Legal Compliance |
| KPI B7.1 | 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. | Consolidating the Foundation of Legal Compliance |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Consolidating the Foundation of Legal Compliance |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | Consolidating the Foundation of Legal Compliance |

| Community | | |
|--|--|---|
| Aspect B8: 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. | Undertaking Corporate Social Responsibilities |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Undertaking Corporate Social Responsibilities |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Undertaking Corporate Social Responsibilities |

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Zengame Technology Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zengame Technology Holding Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 111 to 197, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) 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 Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p><i>Revenue recognition of self-developed games</i></p> <p>During the year ended 31 December 2021, the Group's revenue from self-developed games amounted to RMB1,034,814,000, representing 70.2% of the Group's total revenue. It was mainly derived from the sale of in-game virtual items.</p> <p>Players purchased the Group's in-game virtual items (the "Paying Players") through various distribution platforms and payment vendors.</p> <p>Revenue was recognised (as a release from contract liabilities) ratably over the average playing period of the Paying Players (the "Player Relationship Period"), and significant management judgements were involved in the estimation of the Player Relationship Period. The determination of the Player Relationship Period in each game was made based on the Group's best estimate that took into account all known and relevant information at the time of assessment.</p> <p>References are made to the financial statements in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates" and note 5 "Revenue, other income and gains" for the relevant disclosures.</p> | <p>Our audit procedures mainly included the following:</p> <ul style="list-style-type: none"> — We obtained an understanding of and evaluated the key internal controls in relation to the assessment of the Player Relationship Period; — With the involvement of our IT specialist, we assessed the reasonableness of the expected Player Relationship Period adopted by management by testing the reliability of the data generated from the information systems regarding the historical users' consumption patterns on a sample basis; — We performed analytical review procedures for the ratio of contract liabilities to revenue to assess the adequacy of management's estimation; and — We recalculated revenue and contract liabilities, based on the respective Player Relationship Periods of each game on a sample basis. |

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 HKFRSs issued by the HKICPA 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 HKSAAs 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 HKSAAs, we exercise professional judgement 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.



Independent Auditor's Report

- 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. 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 communicate with those charged with governance 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 Law Kwok Kee.

Ernst & Young

Certified Public Accountants

Hong Kong

22 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|-------|-----------------------|-----------------|
| REVENUE | 5 | 1,473,958 | 742,506 |
| Cost of sales | | (568,583) | (377,947) |
| Gross profit | | 905,375 | 364,559 |
| Other income and gains | 5 | 32,082 | 27,349 |
| Selling and distribution expenses | | (175,628) | (68,305) |
| Administrative expenses | | (64,797) | (30,890) |
| Research and development costs | | (92,531) | (53,816) |
| Other expenses | | (3,241) | (1,150) |
| Finance costs | 7 | (637) | (499) |
| Share of profits and losses of: | | | |
| associates | | (1,366) | — |
| joint ventures | | (421) | (60) |
| PROFIT BEFORE TAX | 6 | 598,836 | 237,188 |
| Income tax expense | 10 | (98,493) | (16,220) |
| PROFIT FOR THE YEAR | | 500,343 | 220,968 |
| Attributable to: | | | |
| Owners of the parent | | 500,343 | 220,968 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic | 12 | RMB49.44 cents | RMB21.71 cents |
| Diluted | 12 | RMB49.44 cents | RMB21.71 cents |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|-------|-----------------|-----------------|
| PROFIT FOR THE YEAR | | 500,343 | 220,968 |
| OTHER COMPREHENSIVE LOSS | | | |
| Other comprehensive loss that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | (1,638) | (6,237) |
| Net other comprehensive loss to be reclassified to profit or loss in subsequent periods | | (1,638) | (6,237) |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | | |
| Equity investments designated at fair value through other comprehensive income | | | |
| Change in fair value | 18 | 258 | 12,810 |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | | (1,380) | 6,573 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 498,963 | 227,541 |
| Attributable to: | | | |
| Owners of the parent | | 498,963 | 227,541 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|--|-------|-----------------|-----------------|
| NON-CURRENT ASSETS | | | |
| Property and equipment | 13 | 8,024 | 5,398 |
| Investments in associates | 14 | 4,579 | — |
| Investments in joint ventures | 15 | 7,574 | 8,940 |
| Intangible assets | 16 | 1,729 | 892 |
| Right-of-use assets | 17 | 9,072 | 4,480 |
| Equity instruments designated at fair value through other comprehensive income (“FVOCI”) | 18 | 21,476 | 3,600 |
| Long-term prepayments, deposits and other receivables | 22 | 9,210 | 6,750 |
| Deferred tax assets | 27 | 454 | 515 |
| Total non-current assets | | 62,118 | 30,575 |
| CURRENT ASSETS | | | |
| Trade receivables | 19 | 192,837 | 71,259 |
| Contract costs | 20 | 20,100 | 3,308 |
| Financial assets at fair value through profit or loss (“FVPL”) | 21 | 101,102 | 110,680 |
| Prepayments, deposits and other receivables | 22 | 61,978 | 31,476 |
| Time deposits with original maturity of over three months | | 405,000 | 323,915 |
| Cash and cash equivalents | 23 | 644,709 | 284,921 |
| Total current assets | | 1,425,726 | 825,559 |
| CURRENT LIABILITIES | | | |
| Trade payables | 24 | 14,982 | 10,484 |
| Contract liabilities | 25 | 59,183 | 6,784 |
| Other payables and accruals | 26 | 101,238 | 33,559 |
| Interest-bearing bank borrowings | | 9,120 | — |
| Lease liabilities | 17 | 6,408 | 2,924 |
| Tax payable | | 46,544 | 3,831 |
| Total current liabilities | | 237,475 | 57,582 |
| NET CURRENT ASSETS | | 1,188,251 | 767,977 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,250,369 | 798,552 |

Consolidated Statement of Financial Position

31 December 2021

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|--|-------|-----------------|-----------------|
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 17 | 2,945 | 1,803 |
| Deferred tax liabilities | 27 | 22,202 | 142 |
| Total non-current liabilities | | 25,147 | 1,945 |
| Net assets | | 1,225,222 | 796,607 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 28 | 8,946 | 8,946 |
| Treasury shares | 28 | (22,476) | — |
| Reserves | 29/30 | 1,238,752 | 787,661 |
| Total equity | | 1,225,222 | 796,607 |

Ye Sheng
Director

Yang Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

| | Attributable to owners of the parent | | | | | | | Total RMB'000 | |
|--|---------------------------------------|---|--|---|---|---|--|------------------|--------------------------------|
| | Share capital RMB'000 (Note 28) | Treasury share RMB'000 (Note 28) | Capital reserve RMB'000 (Note 30) | Statutory surplus reserve RMB'000 (Note 30) | Share-based payment reserve RMB'000 (Note 29) | Fair value reserve of financial assets at FVOCI RMB'000 (Note 30) | Exchange fluctuation reserve RMB'000 (Note 30) | | Retained profits RMB'000 |
| At 31 December 2019 and 1 January 2020 | 8,946 | — | 170,206 | 27,000 | 23,842 | 4,672 | 8,402 | 352,247 | 595,315 |
| Profit for the year | — | — | — | — | — | — | — | 220,968 | 220,968 |
| Other comprehensive income for the year: | | | | | | | | | |
| Transfer of fair value reserve of equity instruments designated at FVOCI | — | — | — | — | — | (19,130) | — | 19,130 | — |
| Change in fair value of equity instruments designated at FVOCI | — | — | — | — | — | 12,810 | — | — | 12,810 |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | (6,237) | — | (6,237) |
| Total comprehensive income for the year | — | — | — | — | — | (6,320) | (6,237) | 240,098 | 227,541 |
| Equity-settled share-based payment | — | — | — | — | 2,249 | — | — | — | 2,249 |
| Shares repurchased | — | — | — | — | — | — | — | (548) | (548) |
| Final 2019 dividend declared | — | — | (27,950) | — | — | — | — | — | (27,950) |
| At 31 December 2020 | 8,946 | — | 142,256* | 27,000* | 26,091* | (1,648)* | 2,165* | 591,797* | 796,607 |
| At 31 December 2020 and 1 January 2021 | 8,946 | — | 142,256 | 27,000 | 26,091 | (1,648) | 2,165 | 591,797 | 796,607 |
| Profit for the year | — | — | — | — | — | — | — | 500,343 | 500,343 |
| Other comprehensive income for the year: | | | | | | | | | |
| Change in fair value of equity instruments designated at FVOCI | — | — | — | — | — | 258 | — | — | 258 |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | (1,638) | — | (1,638) |
| Total comprehensive income for the year | — | — | — | — | — | 258 | (1,638) | 500,343 | 498,963 |
| Transfer to statutory surplus reserve | — | — | — | 2,888 | — | — | — | (2,888) | — |
| Equity-settled share-based payment | — | — | — | — | 2,660 | — | — | — | 2,660 |
| Shares repurchased | — | (22,476) | (86) | — | — | — | — | — | (22,562) |
| Final 2020 dividend declared | — | — | (60,446) | — | — | — | — | — | (60,446) |
| At 31 December 2021 | 8,946 | (22,476) | 91,724* | 29,888* | 28,751* | (1,390)* | 527* | 1,089,252* | 1,225,222 |

* These reserve accounts comprise the consolidated reserves of RMB1,238,752,000 (2020: RMB787,661,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2021

| | Notes | Year ended 31 December | |
|--|-------|------------------------|-----------------|
| | | 2021 RMB'000 | 2020 RMB'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax: | | 598,836 | 237,188 |
| Adjustments for: | | | |
| Finance costs | 7 | 637 | 499 |
| Interest income | 5 | (12,005) | (7,325) |
| Gains on financial assets at FVPL | 5 | (11,877) | (9,284) |
| Share of profits and losses of joint ventures and associates | | 1,787 | 60 |
| Loss on disposal of items of property and equipment | 6 | 6 | — |
| Depreciation of property and equipment | 6 | 2,897 | 2,587 |
| Equity-settled share-based payment expenses | 6 | 2,660 | 2,249 |
| Impairment of trade receivables | 6 | 1,150 | (102) |
| Depreciation of right-of-use assets | 6 | 4,440 | 2,717 |
| Amortisation of intangible assets | 6 | 413 | 182 |
| | | 588,944 | 228,771 |
| (Increase)/decrease in trade receivables | | (122,728) | 122,047 |
| (Increase)/decrease in contract costs | | (16,792) | 5,435 |
| Increase in prepayments, deposits and other receivables | | (30,502) | (12,828) |
| (Increase)/decrease in long-term prepayments, deposits and other receivables | | (2,460) | 650 |
| Increase/(decrease) in trade payables | | 4,498 | (61,247) |
| Increase/(decrease) in contract liabilities | | 52,399 | (8,774) |
| Increase in other payables and accruals | | 67,679 | 303 |
| Cash generated from operations | | 541,038 | 274,357 |
| Income tax paid | | (33,671) | (16,247) |
| Interest paid classified as operating cash flows | | (306) | (282) |
| Net cash flows generated from operating activities | | 507,061 | 257,828 |

Consolidated Statement of Cash Flows

31 December 2021

| | | Year ended 31 December | |
|---|-------|------------------------|-----------|
| | | 2021 | 2020 |
| | | RMB'000 | RMB'000 |
| | Notes | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 12,005 | 7,325 |
| Gains on financial assets at FVPL | | 11,877 | 9,284 |
| Purchases of items of property and equipment | 13 | (5,529) | (4,333) |
| Additions to intangible assets | 16 | (1,250) | (740) |
| Proceeds from disposal of equity investments designated at FVOCI | | — | 37,757 |
| Increase in time deposits with original maturity of over three months | | (81,085) | (192,253) |
| Purchases of equity instruments designated at FVOCI | 35 | (19,106) | (1,500) |
| Purchases of financial assets at FVPL | | (220,156) | (95,682) |
| Purchases of investments in associates | | (3,500) | — |
| Purchases of investments in joint ventures | | — | (9,000) |
| Receipt from maturity of financial assets at FVPL | | 229,734 | 152,000 |
| Net cash flows used in investing activities | | (77,010) | (97,142) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | 12,000 | 20,000 |
| Principal portion of lease payments | 31(b) | (4,406) | (2,656) |
| Repayment of bank loans | | (2,880) | (20,000) |
| Interest paid | | (331) | (217) |
| Dividends paid | | (50,446) | (27,950) |
| Shares repurchased | | (22,562) | (548) |
| Net cash flows used in financing activities | | (68,625) | (31,371) |

Consolidated Statement of Cash Flows

31 December 2021

| | Notes | Year ended 31 December | |
|---|-------|------------------------|-----------------|
| | | 2021 RMB'000 | 2020 RMB'000 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 361,426 | 129,315 |
| Cash and cash equivalents at beginning of year | | 284,921 | 161,843 |
| Effect of foreign exchange rate changes, net | | (1,638) | (6,237) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 644,709 | 284,921 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Unrestricted bank balances and cash | 23 | 644,709 | 284,921 |
| CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS | 23 | 644,709 | 284,921 |

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

31 December 2021

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The Company and its subsidiaries are principally engaged in developing and operating mobile games in the People's Republic of China (hereafter, the "PRC") and investment business in the PRC. There has been no significant change in the Group's principal activities during the year ended 31 December 2021.

In the opinion of the directors, the Company is ultimately controlled by Ye Sheng and Yang Min.

Information about subsidiaries:

Particulars of the Company's principal subsidiaries as of 31 December 2021 are as follows:

| Name | Date and place of incorporation/ registration and place of operations | Issued ordinary share/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|--|----------|---------------------------------------|
| | | | Direct | Indirect | |
| Zen Interactive Limited | 31 August 2018 British Virgin Islands | USD50,000 | 100 | — | Investment holding |
| Zengame Interactive Limited | 13 September 2018 Hong Kong | HK\$10 | 100 | — | Investment holding |
| Shenzhen Tiantianlaiwan Technology Co., Ltd. (深圳市天天來玩科技有限公司) (hereafter, "Tiantianlaiwan") | 29 September 2018 Mainland China | RMB17,355,600 | 100 | — | Provision of technical services |
| Shenzhen Zen Game Technology Company Limited (深圳市禪遊科技股份有限公司) (hereafter, "Zen-Game Shenzhen") | 20 July 2010 Mainland China | RMB54,000,000 | — | 100 | Developing and operating mobile games |
| Shenzhen Laiwan Technology Company Limited (深圳市來玩科技有限公司) (hereafter, "Shenzhen Laiwan") | 15 September 2014 Mainland China | RMB50,000,000 | — | 100 | Developing and operating mobile games |
| Shenzhen Zen-Game Interactive Entertainment Company Limited (深圳市禪遊互動娛樂有限公司) (hereafter, "Chanyou Huyu") | 30 November 2011 Mainland China | RMB3,800,000 | — | 100 | Developing and operating mobile games |
| Shenzhen Leqi Technology Company Limited (深圳市樂其科技有限公司) (hereafter, "Shenzhen Leqi") | 29 June 2015 Mainland China | RMB500,000 | — | 100 | Developing and operating mobile games |
| Shenzhen Leduo Interactive Technology Company Limited (深圳市樂多互動科技有限公司) (hereafter, "Shenzhen Leduo") | 4 June 2015 Mainland China | RMB5,000,000 | — | 100 | Developing and operating mobile games |
| Shanghai Zen-Game Technology Company Limited (上海禪遊科技有限公司) (hereafter, "Zen-game Shanghai") | 9 August 2016 Mainland China | RMB1,000,000 | — | 100 | Developing and operating mobile games |
| International Mobile Entertainment Company Limited (hereafter, "International Mobile") | 26 February 2014 Hong Kong | HK\$2,000,000 | — | 100 | Developing and operating mobile games |
| ZEN-GAME (Hong Kong) Limited (hereafter, "Zen-game HK") | 21 May 2015 Hong Kong | HK\$10,000,000 | — | 100 | Investment holding |
| Zhuhai Zhangyou Technology Company Limited (珠海市掌遊科技有限公司) (hereafter, "Zhuhai Zhangyou") | 11 March 2019 Mainland China | RMB1,000,000 | — | 100 | Developing and operating mobile games |
| Chengdu Shangde Interactive Technology Company Limited (成都尚德互動科技有限公司) (hereafter, "Chengdu Shangde") | 8 September 2020 Mainland China | RMB1,000,000 | — | 100 | Developing and operating mobile games |

31 December 2021

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries: (Continued)

| Name | Date and place of incorporation/ registration and place of operations | Issued ordinary share/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|--|----------|---------------------------------------|
| | | | Direct | Indirect | |
| Shenzhen Zhijian Interactive Entertainment Co., Ltd. (指尖互動娛樂科技有限公司) (hereafter, "Zhijian Huyu") | 15 September 2020 Mainland China | RMB5,000,000 | – | 100 | Developing and operating mobile games |
| HAINAN TIAN TIAN LAI WAN TECHNOLOGY CO., LTD (海南省天天來玩科技有限公司) (hereafter, "Hainan Tiantianlaiwan") | 3 February 2021 Mainland China | RMB5,000,000 | – | 100 | Developing and operating mobile games |
| Shenzhen Metaverse Technology Co., Ltd. (深圳市元宇宙科技有限公司) (hereafter, "Metaverse") | 22 June 2021 Mainland China | RMB3,000,000 | – | 100 | Developing and operating mobile games |
| Zen World Interactive Limited (hereafter, "Zen World") | 11 October 2021 Hong Kong | HK\$1,000,000 | 100 | – | Developing and operating mobile games |
| Shenzhen Jiuyou Network Technology Co., Ltd. (深圳市九遊網絡科技有限公司) (hereafter, "Jiuyou Network") | 1 December 2021 Mainland China | RMB1,000,000 | – | 100 | Developing and operating mobile games |
| ZEN WORLD INTERACTIVE (SINGAPORE) PTE. LTD | 10 December 2021 Singapore | SGD\$1,000 | 100 | – | Developing and operating mobile games |

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for wealth management products and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|--|
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | <i>Interest Rate Benchmark Reform – Phase 2</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i> |

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework¹</i> |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i> |
| HKFRS 17 | <i>Insurance Contracts²</i> |
| Amendments to HKFRS 17 | <i>Insurance Contracts^{2, 5}</i> |
| Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current^{2, 4}</i> |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies²</i> |
| Amendments to HKAS 8 | <i>Definition of Accounting Estimates²</i> |
| Amendments to HKAS 12 | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i> |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use¹</i> |
| Amendments to HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract¹</i> |
| <i>Annual Improvements to HKFRSs 2018–2020</i> | <i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41¹</i> |

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in an associate and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of the associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates and the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates and joint ventures is included as part of the Group's investments in associates and joint ventures.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures financial instruments such as equity instruments designated at FVOCI and financial assets at FVPL at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the reporting periods.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, contract assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the reporting periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person :
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group of a parent of the Group;
or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the parent of the Group.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Property and equipment and depreciation**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|------------------------|---|
| Motor vehicles | 25% |
| Electronic devices | 20% to 33% |
| Leasehold improvements | Shorter of estimated useful lives and remaining lease terms |

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Purchased software licence is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the Group's ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|-----------------|--------------|
| Office building | 1 to 3 years |
|-----------------|--------------|

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) *Lease liabilities* (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)
(Continued)

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“**ECLs**”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and lease liabilities.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the reporting periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue is recognised when the Group has fulfilled the obligations stated in the contracts, and when the Group has transferred control over the relevant goods or services to the customer, on the following bases.

(a) *Revenue generated from the sale of in-game virtual items*

All of the Group's online games are operated using a Free-to-Play model. Players are able to download mobile games free from its third-party distribution platforms. Players may choose to enhance their game experience by purchasing game beans and other virtual items.

Players purchase the Group's game beans and other virtual items (the "**Paying Players**") through various distribution platforms and payment vendors. The distribution platforms collect the payment from the Paying Players and remit the cash to the Company net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and distribution platforms or third-party payment vendors. The Group may also collect the payment directly from third party payment vendors who will deduct their handling fees and the Group will in turn remit the commission charges to the distribution platforms.

As the Group takes the primary responsibilities of game development and game distribution, including selecting distribution platforms and payment vendors, providing customer services, hosting game servers, and controlling game and service specifications and pricing, it considers itself as a principal in such arrangement. Accordingly, revenue is recognised on a gross basis, which is the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer. The relevant service fees charged by the third-party payment vendors and the distribution platforms are recorded in cost of sales.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) *Revenue generated from the sale of in-game virtual items* (Continued)

Upon the sales of game beans and other virtual items, the Group typically has an implied obligation to provide the service which enables the virtual items to be consumed and displayed in the respective games. As a result, the payments received from the sales of game beans and other virtual items are initially included in contract liabilities in the consolidated statement of financial position and are then recognised as revenue subsequently only when the services have been rendered. For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable virtual items represent items that are extinguished after consumption in the form of charges levied on each round of games played. The Paying Players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered. If the Group is unable to track the consumption information of consumable virtual items, the related service period is estimated to be the average playing period of the Paying Players (the “**Player Relationship Period**”).
- Durable virtual items represent items that are accessible and beneficial to the 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 and determines to be the Player Relationship Period.

During the reporting period, the related service period of almost all the virtual items is estimated to be Player Relationship Period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(b) *Revenue from in-game information service*

The Group provides in-game information service to several advertisement agencies. Advertisements generally take the form of video, pop-up ads and banners. Advertisers are normally charged on per click basis or per action basis, etc. Advertisement agencies are responsible for entering into contracts with advertisers and negotiating the advertising forms and price of the advertisements with the advertisers, while the Group's responsibility is limited to providing the mobile games as the platforms for the advertisement agencies to display the advertisement. Accordingly, the Group considered that the advertisement agencies take the primary responsibilities of the advertising arrangement and considered the advertisement agencies to be its customers.

Proceeds earned from advertisers for displaying their advertisements in the Group's mobile games are shared between the Group and the advertisement agencies based on a predetermined rate according to the relevant terms of the agreements entered into between the Group and the advertisement agencies. In-game information service revenues are recognised when the relevant services are provided on a net basis to which the Group is entitled pursuant to the advertising contract.

(c) *Revenue from third-party games*

The Group also provides mobile game publishing service to third-party game development and operation companies. The revenue is recognised when the service is rendered.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is made received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract cost

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**")

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binominal model, further details are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each of the reporting periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for employees of the Group's subsidiaries which operates in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Housing fund – Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Borrowing costs

All the borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB. The Company's functional currency is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the reporting periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

Zen-Game Shenzhen and Fingertip Interactive (collectively referred to as the “**PRC Operating Entities**”) are mainly engaged in the provision of mobile game publishing in the PRC, which falls in the scope of “Catalogue of Restricted Foreign Investment Industries” that foreign investors are prohibited to invest.

As disclosed in note 2.1 to the financial statements, the Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Contractual Arrangements.

The Group considers that it controls the PRC Operating Entities, notwithstanding the fact that it does not hold direct equity interest in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all of the economic benefits from the business activities of the PRC Operating Entities through the Contractual Arrangements. Accordingly, the PRC Operating Entities have been accounted for as subsidiaries during the reporting period.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding tax arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Principal vs agent

The Group recognises revenue of self-developed games on a gross basis.

The Group evaluates agreements with distribution channels and payment vendors in order to determine whether the Group acts as the principal in the arrangement with each party respectively, which it considers in determining if relevant revenue should be reported gross or net of the predetermined amount of the proceeds shared with them.

The determination of whether to record the revenue gross or net is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has general inventory risk; (iii) changes the product or performs part of the services; (iv) has latitude in establishing the selling price; and (v) has involvement in the determination of product and service specifications. The assessment is performed for all of the Group's mobile games.

During the reporting period, the Group took primary responsibilities for game operation, providing customer services, hosting game servers, if needed, and controlling games and services. Accordingly, the Group recorded the revenue from self-developed games received through these third parties on a gross basis. Commissions paid to distribution channels and payment vendors are recorded as cost of sales.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Provision for expected credit losses on trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in note 19 and note 22 to the financial statements, respectively.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of equity-settled share-based payments

The equity-settled share-based payments were estimated as at the date of grant using discounted cash flow model and binominal tree model. This requires the Group to make estimates about the expected dividend yield, forfeiture rate, weighted average cost of capital, volatility, and hence they are subject to uncertainty. Further details are included in note 29 to the financial statements.

Fair value of equity investments

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques including the market approach. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as Price/Earnings ratios (“P/E”), Entity Value/Revenue ratios and discount for lack of marketability. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Further details are included in note 35.

Estimates of Player Relationship Period

The Group recognises the revenues ratably over the estimated average Player Relationship Period for durable virtual items and the consumable virtual items whose consumption information is unable to be tracked. The determination of the 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 quarterly basis. Future paying player usage patterns and behaviours may differ from the historical usage patterns and therefore the estimated average Player Relationship Period may change in the future. The Group will continue to monitor the estimated average Player Relationship Period, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis to that in prior periods. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in an accounting estimate.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in developing and operating mobile games.

HKFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

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4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

Revenue from a customer which amounted to more than 10% of the Group's revenue for the year ended 31 December 2021 is set out below:

| | 2021 RMB'000 | 2020 RMB'000 |
|------------|-----------------|-----------------|
| Customer A | NA* | 192,251 |
| Customer B | 167,420 | 172,271 |

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the year ended 31 December 2021.

5. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers

(a) Disaggregated revenue information

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-----------------|-----------------|
| Revenue: | | |
| Types of goods or services | | |
| Self-developed games | 1,034,814 | 244,797 |
| Third-party games | 8,224 | 11,548 |
| In-game information service | 430,920 | 486,161 |
| Total revenue from contracts with customers | 1,473,958 | 742,506 |
| Timing of revenue recognition | | |
| Services transferred over time | 1,473,958 | 742,506 |

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5. REVENUE, OTHER INCOME AND GAINS (Continued)**Revenue from contracts with customers** (Continued)**(a) Disaggregated revenue information** (Continued)

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-------------------------------|-----------------|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: Self-developed games | 6,784 | 15,558 |

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Virtual items in self-developed games

The performance obligation from operation of self-developed games is satisfied over the estimated. Player Relation Period as the customer simultaneously receives and consumes in-game virtual items provided by the entity's performance as the entity performs.

The distribution platforms collect the payment from the Paying Players and remit the cash to the Company net of commission charges which are pre-determined according to the relevant terms of the agreements entered into between the Group and distribution platforms or third-party payment vendors. The payment is generally due within 30 to 90 days from the date of collecting the payment from the Paying Players.

Publishing service for third party games

The performance obligation is satisfied over time as the third-party game's developer simultaneously receives publishing services provided by the entity's performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

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5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligations (Continued)

In-game information service

The performance obligation is satisfied over time as the advertiser simultaneously receives in-game information service provided by the entity's performance as the entity performs. The payment is generally due within 30 to 90 days from the date of billing.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|-----------------|-----------------|-----------------|
| Within one year | 59,183 | 6,784 |

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-----------------|-----------------|
| Bank interest income | 12,005 | 7,325 |
| Gains or losses on financial assets at fair value through profit or loss | 11,877 | 9,284 |
| Government grants related to income* | 3,578 | 4,676 |
| Super deduction for input VAT | 4,518 | 3,214 |
| Donation income | — | 2,800 |
| Others | 104 | 50 |
| | 32,082 | 27,349 |

* Various government grants have been received from local government authorities in the PRC. There are no unfulfilled conditions and other contingencies relating to these grants.

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | <i>Notes</i> | 2021 RMB'000 | 2020 RMB'000 |
|--|--------------|-------------------------------|-----------------|
| Services fee charged by distribution platforms and payment vendors | | 400,599 | 125,286 |
| Information service costs | | 90,683 | 240,813 |
| New media costs | | 61,359 | — |
| Promotion expenses | | 138,937 | 47,622 |
| Employee benefit expense (excluding directors' and chief executives' remuneration (note 8)): | | | |
| Wages and salaries | | 125,755 | 63,980 |
| Pension scheme contributions (defined contribution schemes) | | 3,811 | 322 |
| Equity-settled share-based payment expenses | 29 | 2,660 | 2,249 |
| Depreciation of property and equipment | 13 | 2,897 | 2,587 |
| Depreciation of right-of-use assets | 17 | 4,440 | 2,717 |
| Amortisation of intangible assets | 16 | 413 | 182 |
| Research and development costs | | 92,531 | 53,816 |
| Impairment of trade receivables* | 19 | 1,150 | (102) |
| Loss on disposal of items of property, plant and equipment | | 6 | — |
| Auditors' remuneration | | 1,850 | 2,000 |

* The provision of impairment for trade receivables is included in "other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

| | 2021 RMB'000 | 2020 RMB'000 |
|-------------------------------|-------------------------------|-----------------|
| Interest on bank loans | 331 | 217 |
| Interest on lease liabilities | 306 | 282 |
| | 637 | 499 |

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8. DIRECTORS' REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-------------------------------|-----------------|
| Salaries, allowances and benefits in kind | 32,184 | 7,986 |
| Equity-settled share-based payment expense | 570 | — |
| Pension scheme contributions | 104 | 126 |
| | 32,858 | 8,112 |

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|------------------------|-------------------------------|-----------------|
| Mr. Jin Shuhui (金書匯) | 100 | 100 |
| Mr. Mao Zhonghua (毛中華) | 100 | 100 |
| Mr. Yang Yi (陽翼) | 100 | 100 |
| | 300 | 300 |

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8. DIRECTORS' REMUNERATION (Continued)**(b) Executive directors and a non-executive director**

| Year ended 31 December 2021 | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Equity-settled share-based payment expense RMB'000 | Total remuneration RMB'000 |
|--------------------------------|--|---|--|----------------------------------|
| Executive directors: | | | | |
| Mr. Ye Sheng (叶升) | 16,092 | 52 | 285 | 16,429 |
| Mr. Yang Min (楊民) | 16,092 | 52 | 285 | 16,429 |
| | 32,184 | 104 | 570 | 32,858 |
| Non-executive director: | | | | |
| Ms. Fu Hao (付郝) | — | — | — | — |
| Year ended 31 December 2020 | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Equity-settled share-based payment expense RMB'000 | Total remuneration RMB'000 |
| Executive directors: | | | | |
| Mr. Ye Sheng (叶升) | 3,843 | 63 | — | 3,906 |
| Mr. Yang Min (楊民) | 3,843 | 63 | — | 3,906 |
| | 7,686 | 126 | — | 7,812 |
| Non-executive director: | | | | |
| Ms. Fu Hao (付郝) | — | — | — | — |

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2020: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2020: three) highest paid employees who are neither a director nor chief executive of the Group are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-----------------|-----------------|
| Salaries, allowances and benefits in kind | 18,954 | 4,767 |
| Equity-settled share-based payment expense | 605 | 581 |
| Pension scheme contributions | 109 | 7 |
| | 19,668 | 5,355 |

The numbers of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands are as follows:

| | 2021 | 2020 |
|---------------------------------|------|------|
| HK\$1,500,001 to HK\$2,000,000 | 0 | 2 |
| HK\$2,000,001 to HK\$2,500,000 | 0 | 1 |
| HK\$6,000,001 to HK\$7,000,000 | 1 | 0 |
| HK\$7,000,001 to HK\$8,000,000 | 0 | 0 |
| HK\$8,000,001 to HK\$9,000,000 | 1 | 0 |
| HK\$9,000,001 to HK\$10,000,000 | 1 | 0 |

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Zen-Game Shenzhen was qualified as “High and New Technology Enterprises” under the EIT Law since year 2019. Accordingly it was entitled to a preferential income tax rate of 15% for a 3-year period since 31 December 2019. Zen-Game Shenzhen was entitled to a preferential income tax rate of 15% from 2019 to 2021.

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10. INCOME TAX (Continued)

Shenzhen Laiwan was accredited as a “Software Enterprise” in 2019 under the relevant PRC laws and regulation and was entitled with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Therefore, Shenzhen Laiwan was exempted from income tax for its first two profitable years (i.e., 2019 and 2020) and was entitled to a preferential income tax rate of 12.5% from 2021 to 2023.

Tiantianlaiwan was qualified as a “Software Enterprise” in 2019 under the relevant PRC Laws and regulations with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Therefore, Tiantianlaiwan was exempted from income tax for its first two profitable years (i.e. 2019 and 2020) and was entitled to a preferential income tax rate of 12.5% from 2021 to 2023.

Hainan Tiantianlaiwan were established in the Hainan Free Trade Port. According to the applicable regulations promulgated by the State Council and relevant authorities, the applicable tax rate for Hainan Tiantianlaiwan was 15% for the year ended 31 December 2021.

Metaverse was qualified as a “Software Enterprise” under the relevant PRC Laws and regulations with a preferential tax treatment (i.e., 2-year exemption and 3-year half payment) from its first profitable year. Metaverse expected it will be exempted from income tax for the year 2021.

Pursuant to the PRC Enterprise Income Tax Law (“**EIT Law**”) and the respective regulations, the other PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year.

Hong Kong profits tax has been provided at the rate of 16.5% on the Group’s assembled profits derived from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates.

The major components of the income tax expense for the years are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|-------------------------------|-------------------------------|-----------------|
| Current tax | | |
| Charge for the year | 76,384 | 14,818 |
| Deferred tax (note 27) | 22,109 | 1,402 |
| Total tax charge for the year | 98,493 | 16,220 |

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10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate are as follows:

| | 2021 | | 2020 | |
|---|-----------------|---------------|----------|--------|
| | RMB'000 | % | RMB'000 | % |
| Profit before tax | 598,836 | | 237,188 | |
| Tax at the statutory tax rate | 149,709 | 25.0 | 59,297 | 25.0 |
| Effect of different applicable tax rates for specific jurisdictions or enacted by local authority | (76,717) | (12.8) | (36,396) | (15.3) |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | 21,000 | 3.5 | — | — |
| Adjustments in respect of current tax of previous periods | 6,839 | 1.1 | (184) | (0.1) |
| Profits and losses attributable to joint ventures and associates | (312) | (0.1) | — | — |
| Additional deduction for research and development expenses (a) | (8,613) | (1.4) | (6,054) | (2.6) |
| Expenses not deductible for tax | 499 | 0.1 | 340 | 0.1 |
| Effect on opening deferred tax of increase in rates | 118 | — | — | — |
| Tax losses utilised from previous periods | (414) | (0.1) | (810) | (0.3) |
| Tax losses not recognised | 6,384 | 1.1 | 27 | 0.01 |
| Tax charge at the Group's effective rate | 98,493 | 16.4 | 16,220 | 6.8 |

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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10. INCOME TAX (Continued)

The total amounts of temporary difference associated with the investments in the subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was approximately RMB866,964,000 for the year ended 31 December 2021 (2020: RMB536,201,000).

- (a) According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC, enterprises engaging in research and development activities were entitled to claim 175% of the research and development expenses from 1 January 2018 to 31 December 2021 as tax deductible expenses.

11. DIVIDENDS

| | 2021 HK\$'000 | 2020 HK\$'000 |
|---|--------------------------------|------------------|
| Interim — HK\$0.00 (2020: HK\$0.00) per ordinary share | — | — |
| Proposed final — HK\$0.15 (2020: HK\$0.06) per ordinary share | 152,543 | 61,047 |
| | 152,543 | 61,047 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year ended 31 December 2021.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2021 and 2020 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculation of basic earnings per share is based on:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-------------------------------|-----------------|
| Earnings | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | 500,343 | 220,968 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 1,012,061,271 | 1,017,623,479 |

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13. PROPERTY AND EQUIPMENT

| | Electronic devices RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---|----------------------------------|------------------------------|--------------------------------------|------------------|
| 31 December 2021 | | | | |
| At 1 January 2021: | | | | |
| Cost | 3,234 | 7,466 | 1,243 | 11,943 |
| Accumulated depreciation | (2,119) | (3,212) | (1,214) | (6,545) |
| Net carrying amount | 1,115 | 4,254 | 29 | 5,398 |
| At 1 January 2021, net of accumulated depreciation | 1,115 | 4,254 | 29 | 5,398 |
| Additions | 3,964 | 987 | 578 | 5,529 |
| Disposal | 6 | — | — | 6 |
| Depreciation provided during the year (note 6) | (973) | (1,800) | (124) | (2,897) |
| At 31 December 2021, net of accumulated depreciation | 4,100 | 3,441 | 483 | 8,024 |
| At 31 December 2021: | | | | |
| Cost | 6,821 | 7,590 | 1,823 | 16,234 |
| Accumulated depreciation | (2,721) | (4,149) | (1,340) | (8,210) |
| Net carrying amount | 4,100 | 3,441 | 483 | 8,024 |

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13. PROPERTY AND EQUIPMENT (Continued)

| | Electronic devices RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|--|----------------------------------|------------------------------|--------------------------------------|------------------|
| 31 December 2020 | | | | |
| At 1 January 2020: | | | | |
| Cost | 2,275 | 4,391 | 944 | 7,610 |
| Accumulated depreciation | (1,539) | (1,696) | (723) | (3,958) |
| Net carrying amount | 736 | 2,695 | 221 | 3,652 |
| At 1 January 2020, net of accumulated depreciation | | | | |
| | 736 | 2,695 | 221 | 3,652 |
| Additions | 959 | 3,075 | 299 | 4,333 |
| Disposal | — | — | — | — |
| Depreciation provided during the year (note 6) | (580) | (1,516) | (491) | (2,587) |
| At 31 December 2020, net of accumulated depreciation | 1,115 | 4,254 | 29 | 5,398 |
| At 31 December 2020: | | | | |
| Cost | 3,234 | 7,466 | 1,243 | 11,943 |
| Accumulated depreciation | (2,119) | (3,212) | (1,214) | (6,545) |
| Net carrying amount | 1,115 | 4,254 | 29 | 5,398 |

14. INVESTMENTS IN ASSOCIATES

| | 2021 RMB'000 | 2020 RMB'000 |
|--------------------------|-----------------|-----------------|
| Share of net assets | 908 | 338 |
| Goodwill on acquisition | 4,009 | — |
| Provision for impairment | (338) | (338) |
| | 4,579 | — |

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14. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the Group's associates are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of ownership interest attributable to the Group | Principal activity |
|---|-------------------------------------|------------------------------------|--|---------------------------|
| Uniques Digital Company Limited* ("Uniques Digital") | HK\$2,000,000 as registered capital | Hong Kong | 35% | Mobile game development |
| Shenzhen Yanque Technology Company Limited ("Yanque") | RMB1,250,000 as registered capital | PRC/ Mainland China | 20% | Mobile game development |
| Mengqu Education Technology (Shenzhen) Co., Ltd. ("Mengqu") | RMB1,000,000 as registered capital | PRC/ Mainland China | 30% | Education App development |

* Management has recognised a full impairment charge of RMB338,000 during the year ended 31 December 2017.

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-----------------|-----------------|
| Share of the associates' loss for the year | (421) | — |
| Share of the associates' total comprehensive loss | (421) | — |
| Aggregate carrying amount of the Group's investments in associates | 4,579 | — |

15. INVESTMENTS IN JOINT VENTURES

| | 2021 RMB'000 | 2020 RMB'000 |
|--------------------------|-----------------|-----------------|
| Share of net assets | 1,184 | 2,550 |
| Goodwill on acquisition | 6,390 | 6,390 |
| Provision for impairment | — | — |
| | 7,574 | 8,940 |

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15. INVESTMENTS IN JOINT VENTURES (Continued)

Particulars of the Group's joint ventures are as follows:

| Name | | Particulars of issued shares held | Place of registration and business | Percentage of ownership interest attributable to the Group | Principal activities |
|--|-----|------------------------------------|------------------------------------|--|--------------------------------|
| Guangzhou Guaidian Internet Technology Company Limited (" Guaidian ") | (a) | RMB1,428,571 as registered capital | PRC/Mainland China | 30% | Game promotion service |
| Wuhan Ruiyou Technology Company Limited (" Ruiyou ") | (b) | RMB1,000,000 as registered capital | PRC/Mainland China | 25% | Mobile game development |
| Shenzhen Ruisibai Culture Media Co., Ltd. (" Ruisibai ") | (c) | RMB4,000,000 as registered capital | PRC/Mainland China | 35% | Film and television industries |

(a) In April 2020, the Group invested RMB2,000,000 in Guaidian which accounted for 30% of the total equity interest.

(b) In January 2020, the Group invested RMB3,000,000 in Ruiyou which accounted for 25% of the total equity interest.

(c) In June 2020, the Group invested RMB4,000,000 in Ruisibai which accounted for 35% of the total equity interest.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-----------------|-----------------|
| Share of the joint ventures' losses for the year | (1,366) | (60) |
| Share of the joint ventures' total comprehensive losses | (1,366) | (60) |
| Aggregate carrying amount of the Group's investments in the joint ventures | — | — |
| | 7,574 | 8,940 |

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16. INTANGIBLE ASSETS

| | Licences RMB'000 | Total RMB'000 |
|--|---------------------|------------------|
| 31 December 2021 | | |
| At 1 January 2021: | | |
| Cost | 1,340 | 1,340 |
| Accumulated amortisation | (448) | (448) |
| Net carrying amount | 892 | 892 |
| At 1 January 2021, net of accumulated amortisation | 892 | 892 |
| Additions | 1,250 | 1,250 |
| Amortisation provided during the year (note 6) | (413) | (413) |
| Exchange realignment | — | — |
| At 31 December 2021, net of accumulated amortisation | 1,729 | 1,729 |
| At 31 December 2021: | | |
| Cost | 2,590 | 2,590 |
| Accumulated amortisation | (861) | (861) |
| Net carrying amount | 1,729 | 1,729 |

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17. LEASES**The Group as a lessee**

The Group has lease contracts for office buildings used for its operations. They generally have lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|------------------------------|-------------------------------|-----------------|
| At the beginning of the year | 4,480 | 6,355 |
| Additions | 9,032 | 842 |
| Depreciation charge (note 6) | (4,440) | (2,717) |
| At the end of the year | 9,072 | 4,480 |

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-------------------------------|-----------------|
| Carrying amount at 1 January | 4,727 | 6,541 |
| New leases | 9,032 | 842 |
| Accretion of interest recognised during the year (note 7) | 306 | 282 |
| Payments | (4,712) | (2,938) |
| Carrying amount at 31 December | 9,353 | 4,727 |
| Analysed into: | | |
| Current portion | 6,408 | 2,924 |
| Non-current portion | 2,945 | 1,803 |

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

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17. LEASES (Continued)**The Group as a lessee** (Continued)**(c)** The amounts recognised in profit or loss in relation to leases are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-------------------------------|-----------------|
| Interest on lease liabilities | 306 | 282 |
| Depreciation charge of right-of-use assets | 4,439 | 2,717 |
| Total amount recognised in profit or loss | 4,745 | 2,999 |

(d) The total cash outflow for leases is disclosed in note 31 to the financial statements.**18. EQUITY INSTRUMENTS DESIGNATED AT FVOCI**

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-------------------------------|-----------------|
| Non-listed equity investments: | | |
| Shenzhen Flying Fish Interactive Technology Company Limited (" Flying Fish ") | 620 | 600 |
| Shenzhen Yiyou Technology Company Limited (" Yiyou ") | — | — |
| Shenzhen Yanque Technology Company Limited (" Yanque ") | — | 1,500 |
| Guangzhou Xiguahentian Information Technology Company Limited (" Xiguahentian ") | 1,750 | 1,500 |
| Shenzhen Candy Interactive Technology Company Limited (" Candy Interactive ") | 4,800 | — |
| Shenzhen Kuangyexiongmao Company Limited (" Kuangyexiongmao ") | 3,000 | — |
| Shenzhen Qiuxing Technology Company Limited (" Qiuxing ") | 1,000 | — |
| Shenzhen Mengqiwenhua Company Limited (" Mengqiwenhua ") | 10,306 | — |
| | 21,476 | 3,600 |

The above investments consist of investments in equity securities which were designated as equity instruments designated at FVOCI in financial assets.

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18. EQUITY INSTRUMENTS DESIGNATED AT FVOCI (Continued)

In the years ended 31 December 2021 and 2020, the changes in the fair value and income tax effect in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income are as below:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-------------------------------|-----------------|
| The gross fair value change in respect of the Group's equity instruments designated at FVOCI recognised in other comprehensive income | 270 | 5,371 |
| Income tax effect | (12) | 7,439 |
| Changes in fair value on equity instruments designated at FVOCI | 258 | 12,810 |

Equity instruments designated at FVOCI include investments in equity shares of listed and non-listed companies. The Group holds non-controlling interests (no more than 15%) in these companies. These investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

19. TRADE RECEIVABLES

| | 2021 RMB'000 | 2020 RMB'000 |
|--------------------------------------|-------------------------------|-----------------|
| Trade receivables | 195,193 | 72,465 |
| Provision for expected credit losses | (2,356) | (1,206) |
| | 192,837 | 71,259 |

The Group's trade receivables primarily consist of those due from third-party distribution platforms and payment vendors who collect payment from the Paying Players on behalf of the Group. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and are generally on terms within 90 days.

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19. TRADE RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of each of the years, based on the recognition date of gross trade receivables and net of provision, is as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|-------------------|-------------------------------|-----------------|
| Within 90 days | 177,688 | 62,530 |
| 91 to 180 days | 11,580 | 5,889 |
| 181 to 1 year | 1,818 | 2,449 |
| 1 year to 2 years | 1,751 | 391 |
| | 192,837 | 71,259 |

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses. During the year, the expected losses rates are determined as follows:

| 31 December 2021 | Amount RMB'000 | Expected credit loss rate | Impairment RMB'000 |
|-------------------------|---------------------------------|--|-------------------------------------|
| Trade receivables aged: | | | |
| Within 1 year | 191,520 | 0.23% | 434 |
| 1 to 2 years | 3,034 | 42.29% | 1,283 |
| 2 to 3 years | 639 | 100.00% | 639 |
| | 195,193 | | 2,356 |
| | | Expected credit | |
| 31 December 2020 | Amount RMB'000 | loss rate | Impairment RMB'000 |
| Trade receivables aged: | | | |
| Within 1 year | 71,373 | 0.71% | 505 |
| 1 to 2 years | 647 | 39.51% | 256 |
| 2 to 3 years | 445 | 100.00% | 445 |
| | 72,465 | | 1,206 |

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19. TRADE RECEIVABLES (Continued)

The movements in the allowance for expected credit losses of trade receivables are as follows:

| | Note | 2021 RMB'000 | 2020 RMB'000 |
|--|------|-----------------|-----------------|
| At beginning of year | | 1,206 | 1,308 |
| Provision/(reversal of provision) for expected credit losses | 6 | 1,150 | (102) |
| At the end of year | | 2,356 | 1,206 |

20. CONTRACT COSTS

Contract costs are mainly related to contract acquisition costs. Management expects that incremental relevant distribution service fees paid as a result of obtaining customer contracts are recoverable, which meet the contract acquisition cost criteria when the Group considers the Paying Player as its customers. The Group has therefore capitalised them as contract costs in the amounts of RMB20,100,000 and RMB3,308,000 as at 31 December 2021 and 2020, respectively.

Capitalised relevant service fees are amortised when the related revenue is recognised, which is consistent with the pattern of recognition of the associated revenue. The amounts of amortisation were RMB400,599,000 and RMB125,286,000 for the years ended 31 December 2021 and 2020, respectively, and there was no impairment loss in relation to the costs capitalised.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-----------------|-----------------|
| Wealth management products issued by licensed banks, at fair value | 101,102 | 110,680 |
| | 101,102 | 110,680 |

Wealth management products issued by several licensed banks were denominated in RMB, with expected rates of return ranging from 2.29% to 3.50% and 2.72% to 4.05% per annum for the years ended 31 December 2021 and 2020, respectively. The return on all these wealth management products is not guaranteed, and hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are categorised within Level 2 of the fair value hierarchy.

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2021 | 2020 |
|--------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Non-current portion | | |
| Deposits and other receivables | 9,210 | 6,750 |
| | 9,210 | 6,750 |
| Current portion | | |
| Prepayments | 16,374 | 15,089 |
| Deposits and other receivables | 45,604 | 16,387 |
| | 61,978 | 31,476 |

The amounts due from debtors were unsecured and interest-free. None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The credit exposures of the above balances have not had significantly increase in credit risk since initial recognition, the Group is required to provide for 12-month expected credit losses. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the year, the Group estimated that the expected loss rate for the above receivables was insignificant.

The balances due from the joint ventures included in the above are as follows:

| | 2021 | 2020 |
|----------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Joint ventures | 124 | 1,855 |

The amounts due from the joint ventures are unsecured, non-interest-bearing and are repayable on demand.

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23. CASH AND CASH EQUIVALENTS

| | 2021 | 2020 |
|------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Cash and bank balances | 644,709 | 284,921 |
| | 644,709 | 284,921 |
| Denominated in: | | |
| RMB | 616,641 | 245,272 |
| HK\$ | 22,521 | 37,692 |
| US\$ | 5,547 | 1,957 |

The cash and bank balances of the Group denominated in RMB amounted to RMB616,641,000 (2020: RMB245,272,000) at the end of the reporting period. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the year, based on the invoice date, is as follows:

| | 2021 | 2020 |
|--------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Within 3 months | 13,573 | 7,116 |
| 3 to 6 months | 198 | 630 |
| 6 months to 1 year | 448 | 1,801 |
| 1 year to 2 years | 763 | 937 |
| | 14,982 | 10,484 |

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

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25. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 2021 and 2020 and will be expected to be recognised within one year:

| | 2021 RMB'000 | 2020 RMB'000 |
|----------------------|-------------------------------|-----------------|
| Self-developed games | 59,183 | 6,784 |

Deferred online game revenue primarily consists of the unamortised revenue from the sales of game beans and other virtual items for online games, where there is still an implied obligation to be provided by the Group.

26. OTHER PAYABLES AND ACCRUALS

| | 2021 RMB'000 | 2020 RMB'000 |
|-----------------------------|-------------------------------|-----------------|
| Salary and welfare payables | 76,338 | 24,853 |
| Other tax payables | 21,462 | 6,979 |
| Other payables | 3,438 | 1,727 |
| | 101,238 | 33,559 |

Other payables are non-interest-bearing and repayable on demand.

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-------------------------------|-----------------|
| Deferred tax assets and liabilities: | | |
| At 1 January | 373 | (5,664) |
| Deferred tax credited to profit or loss during the year (note 10) | (22,109) | (1,402) |
| Deferred tax charged to other comprehensive income (note 18) | (12) | 7,439 |
| At 31 December | (21,748) | 373 |

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27. DEFERRED TAX (Continued)

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-----------------|-----------------|
| Deferred tax assets | | |
| Fair value adjustments arising from equity instruments designated at FVOCI | 238 | 250 |
| Provision for accounts receivable | 743 | 511 |
| Temporary differences arising from HKFRS 16 | 43 | 41 |
| | 1,024 | 802 |
| Deferred tax liabilities | | |
| Fair value adjustment arising from wealth management products | (1,349) | (429) |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | (21,000) | — |
| Unrealised loss arising from intra group shareholding transactions | (423) | — |
| | (22,772) | (429) |
| | (21,748) | 373 |

For presentation purposes, certain deferred tax assets and liabilities have been offset in financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-----------------|-----------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 454 | 515 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (22,202) | (142) |
| | (21,748) | 373 |

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28. SHARE CAPITAL**Shares**

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-------------------------------|-----------------|
| Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each as at 31 December 2021 (2020: 50,000,000,000 ordinary shares of HK\$0.01 each) | 440,000 | 440,000 |
| Issued and fully paid: 996,642,000 ordinary shares as at 31 December 2021 (2020: 1,017,444,000 ordinary shares) | 8,946 | 8,946 |

A summary of movements in the Company's share capital is as follows:

| | Note | Number of shares in issue | Share capital RMB'000 |
|--|------|--------------------------------------|----------------------------------|
| At 31 December 2020 and 1 January 2021 | | 1,017,444,000 | 8,946 |
| Shares repurchased | (a) | (20,802,000) | — |
| At 31 December 2021 | | <u>996,642,000</u> | <u>8,946</u> |

- (a) The Company repurchased 20,802,000 shares on the Hong Kong Stock Exchange at a total consideration of RMB22,475,541.

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29. SHARE-BASED PAYMENTS

Share Award Scheme

Hezhong Century Technology Company Limited (“**Hezhong**”) is a limited liability company controlled by Mr. Ye Sheng and Mr. Yang Min and incorporated in the PRC in May 2012 and has become a shareholder of Zen-Game Shenzhen since June 2012. Except for holding an equity interest in Zen-Game Shenzhen, Hezhong did not conduct any other business. On 1 June 2016 and 1 June 2018, Hezhong granted 3,502,850 and 617,000 restricted shares units (“**RSUs**”), representing 2,980,300 underlying shares of and 5.52% equity interest in Zen-Game Shenzhen to the senior management and key employees (“**Grantees**”) of the Group respectively to retain them for the continuing operation and development of the Group. The RSUs enabled the Grantees to be indirectly entitled to the ownership of Zen-Game Shenzhen through their respective equity interests in Hezhong.

The vesting period of the RSUs is determined to be two years with 50% each to be vested at the end of each anniversary, or four years with 25% each to be vested at the end of each anniversary, or six years with 10% each to be vested at the end of the first two anniversaries and 20% at the end of each of the following four anniversaries.

Movements during the year

Movements in the number of shares held for the scheme and awarded shares for the years ended 31 December 2021 and 2020 are as follows:

| | Number of shares held for the share award scheme | Number of awarded shares | Total |
|---------------------|---|--------------------------------|------------|
| At 31 December 2019 | 1,802,712 | 2,317,138 | 4,119,850* |
| Vested | (1,056,213) | 1,056,213 | — |
| At 31 December 2020 | 746,499 | 3,373,351 | 4,119,850* |
| Vested | (714,000) | 714,000 | — |
| Forfeited | (32,500) | — | (32,500) |
| At 31 December 2021 | — | 4,087,350 | 4,087,350 |

* Representing 62,561,080 underlying shares of the Company, being approximately 6.28% of the total issued shares of the Company (excluding the shares repurchased).

As part of the Restructuring, the Company issued shares to Hezhong Power Limited, which is the nominee of a trust and beneficially owned by the Grantees in exchange for controlling Hezhong’s equity interest in Zen-Game Shenzhen. The percentage of the equity interest held by Hezhong Power Limited in the Company is identical to the percentage of the equity interest in Zen-Game Shenzhen indirectly held by the Grantees through Hezhong. There was no change in any other vesting conditions. There was no significant incremental value noted before and after the modification given Zen-Game Shenzhen has carried out substantially all of the businesses owned by the Group.

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29. SHARE-BASED PAYMENTS (Continued)**RSU Scheme**

The directors of the Company appointed an independent valuer, Value Link Group, to estimate the fair values of the above RSU as at the respective grant dates.

The following table lists the key inputs to the model used for the valuation of the above RSU granted on each grant date:

| | Granted on 1 June 2016 | Granted on 1 June 2018 |
|--|-----------------------------------|-----------------------------------|
| Weighted average cost of capital (%) | 24 | 22 |
| Discount for lack of marketability (%) | 27 | 15 |
| Weighted average share price (RMB per share) | 5.06 | 14.97 |
| Model used | Discounted cash flow method | Discounted cash flow method |

Share Option Scheme (the “2021 Scheme”)

A share option scheme was approved and adopted by the Company on 28 March 2019. Pursuant to the Share Option Scheme, the Company proposed to grant 16,000,000 share options to the scheme participants on 3 June 2021. Participants of the 2021 Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole.

Each share option shall entitle the holder of the share option to subscribe for one share upon exercise of such share option at an exercise price of HK\$1.29 per share, which represents the highest of (1) the nominal value of a share; (2) the closing price of HK\$1.24 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (3) the average closing price of HK\$1.29 per share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

The share options granted shall vest in the proposed grantees in accordance with the timetable below, each with an exercise period commencing from the relevant Vesting Date and ending 10 years after the date of grant (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a “**Vesting Date**”):

| Vesting Date | Percentage of Share Options to vest |
|---------------------|--|
| 3 June 2022 | 25% of the total number of Share Options granted |
| 3 June 2023 | 25% of the total number of Share Options granted |
| 3 June 2024 | 25% of the total number of Share Options granted |
| 3 June 2025 | 25% of the total number of Share Options granted |

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29. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (the “2021 Scheme”) (Continued)

The fair value of the share options granted amounted to RMB6,513,000 among which the share option expense recognised by the Company in 2021 amounted to RMB1,930,000 based on the best estimates of the expected number of exercisable options at the end of each vesting period.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| 2021 Number of options '000 | Exercise price HKD per share | Exercise period |
|-----------------------------------|------------------------------------|---------------------------------|
| 3,847.5 | 1.29 | From 3 June 2022 to 2 June 2031 |
| 3,847.5 | 1.29 | From 3 June 2023 to 2 June 2031 |
| 3,847.5 | 1.29 | From 3 June 2024 to 2 June 2031 |
| 3,847.5 | 1.29 | From 3 June 2025 to 2 June 2031 |
| <u>15,390</u> | | |

The directors of the Company appointed an independent valuer, Avista Group, to estimate the fair values of the above share options as at the respective grant dates. The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

| Date of Grant | 3 June 2021 |
|-----------------------------|---------------------|
| Risk-free interest rate (%) | 1.54% |
| Volatility (%) | 57.79% |
| Proposed dividend rate (%) | 4.0% |
| Model used | binomial tree model |

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

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29. SHARE-BASED PAYMENTS (Continued)

The expense recognised for employee services received during the year is shown in the following table:

| | 2021 RMB'000 | 2020 RMB'000 |
|---------------------|-------------------------------|-----------------|
| Share Award Scheme | 730 | 2,249 |
| Share Option Scheme | 1,930 | — |
| | 2,660 | 2,249 |

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 115 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from its then shareholders of Zen-Game Shenzhen and the difference between the par value of the shares issued and the proceeds received.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the group companies, each of the companies that is domiciled in the PRC is required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

(c) Fair value reserve of financial assets at FVOCI

The fair value reserve of financial assets at FVOCI comprises all revaluation changes arising from the equity instruments designated at FVOCI.

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30. RESERVES (Continued)

(d) Share-based payment reserve

The share-based payment reserve comprises the fair value of the restricted shares and share option granted and exercised, as further explained in note 29 to the financial statements.

(e) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies not using RMB as the functional currency. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB9,032,000 and RMB9,032,000, respectively, in respect of lease arrangements for properties (2020: RMB842,000 and RMB842,000).

(b) Changes in liabilities arising from financing activities:

| 2021 | Lease liabilities RMB'000 | Dividends payable RMB'000 |
|--|------------------------------|------------------------------|
| At 1 January 2021 | 4,727 | — |
| Changes from financing cash flows | (4,406) | (50,445) |
| New leases | 9,032 | — |
| Interest expense | 306 | — |
| Interest paid classified as operating cash flows | (306) | — |
| Dividends declared | — | 50,445 |
| At 31 December 2021 | 9,353 | — |

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31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Changes in liabilities arising from financing activities: (Continued)

| 2020 | Lease liabilities RMB'000 | Dividends payable RMB'000 |
|--|------------------------------|------------------------------|
| At 1 January 2020 | 6,541 | — |
| Changes from financing cash flows | (2,656) | (27,950) |
| New leases | 842 | — |
| Interest expense | 282 | — |
| Interest paid classified as operating cash flows | (282) | — |
| Dividends declared | — | 27,950 |
| At 31 December 2020 | 4,727 | — |

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | Year ended 31 December 2021 RMB'000 | Year ended 31 December 2020 RMB'000 |
|-----------------------------|--|--|
| Within operating activities | 306 | 282 |
| Within financing activities | 4,406 | 2,656 |

32. COMMITMENTS

The Group did not have any significant commitments as at 31 December 2021.

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33. RELATED PARTY TRANSACTIONS

| Name of related party | Relationship with the Group |
|-----------------------|-----------------------------|
|-----------------------|-----------------------------|

| | |
|----------|---------------|
| Guaidian | Joint venture |
|----------|---------------|

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

i. Transactions with related parties

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|------------------------|-------|-----------------|-----------------|
| Joint ventures: | | | |
| Promotion service fees | (a) | 897 | 48,265 |

(a) The expenditures of promotion service fees were mainly used for the purpose of expanding player base and promoting new games.

ii. Outstanding balances with related parties

Details of the Group's balances of receivables and payables which are trade in nature with its joint ventures and associates as at the end of the reporting period are disclosed in notes 22 to the financial statements.

iii. Compensation of key management personnel of the Group:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-----------------|-----------------|
| Salaries, allowances and benefits in kind | 43,391 | 12,323 |
| Equity-settled share-based payment expense | 1,040 | 1,483 |
| Pension scheme contributions | 190 | 137 |
| | 44,621 | 13,943 |

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34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the years are as follows:

31 December 2021

| Financial assets | Financial assets at amortised cost RMB'000 | Financial assets at FVPL RMB'000 | Financial assets at FVOCI RMB'000 | Total RMB'000 |
|--|---|---|--|--|
| Equity instruments designated at FVOCI | — | — | 21,476 | 21,476 |
| Trade receivables | 192,837 | — | — | 192,837 |
| Financial assets included in prepayments, deposits and other receivables | 27,246 | — | — | 27,246 |
| Financial assets included in long-term prepayments, deposits and other receivables | 9,210 | — | — | 9,210 |
| Financial assets at fair value through profit or loss | — | 101,102 | — | 101,102 |
| Time deposits with original maturity of over three months | 405,000 | — | — | 405,000 |
| Cash and cash equivalents | 644,709 | — | — | 644,709 |
| | 1,279,002 | 101,102 | 21,476 | 1,401,580 |
| Financial liabilities | | | | Financial liabilities at amortised cost RMB'000 |
| Trade payables | | | | 14,982 |
| Financial liabilities included in other payables and accruals | | | | 79,776 |
| Lease liabilities | | | | 9,353 |
| | | | | 104,111 |

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34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2020

| Financial assets | Financial assets at amortised cost RMB'000 | Financial assets at FVPL RMB'000 | Financial assets at FVOCI RMB'000 | Total RMB'000 |
|--|---|-------------------------------------|--|------------------|
| Equity instruments designated at FVOCI | — | — | 3,600 | 3,600 |
| Trade receivables | 71,259 | — | — | 71,259 |
| Financial assets included in prepayments, deposits and other receivables | 11,187 | — | — | 11,187 |
| Financial assets included in long-term prepayments, deposits and other receivables | 6,750 | — | — | 6,750 |
| Financial assets at fair value through profit or loss | — | 110,680 | — | 110,680 |
| Time deposits with original maturity of over three months | 323,915 | — | — | 323,915 |
| Cash and cash equivalents | 284,921 | — | — | 284,921 |
| | 698,032 | 110,680 | 3,600 | 812,312 |
| Financial liabilities | | | Financial liabilities at amortised cost RMB'000 | |
| Trade payables | | | | 10,484 |
| Financial liabilities included in other payables and accruals | | | | 26,580 |
| Lease liabilities | | | | 4,727 |
| | | | | 41,791 |

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2021, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has assessed that the carrying amounts of cash and cash equivalents, trade receivables, amounts due from a related party, financial assets included in prepayments, deposits and other receivables, trade payables, amounts due to related parties, financial liabilities included in other payables and accruals and interest-bearing bank borrowings reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) Financial instruments in Level 1

The fair value of the listed securities is determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (Level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

(b) Financial instruments in Level 2

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 to fair value of an instrument are observable, the instrument is included in Level 2.

The fair values of wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including the expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation techniques, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in the consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of each of the years.

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

(c) Financial instruments in level 3

Level 3 instruments of the Group's assets are equity investments in unlisted companies and a listed company.

The fair values of the equity investments in unlisted companies have been estimated using the market approach. Major assumptions used in the valuation include discount of lack of marketability, P/E ratio, etc. The fair value of the equity investment in a listed company has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period of three years after the exchange date as further described in note 18 to the financial statements.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Equity instruments designated at FVOCI: | | | | |
| Non-listed equity investments | — | — | 21,476 | 21,476 |
| Financial assets at fair value through profit or loss | — | 101,102 | — | 101,102 |
| | — | 101,102 | 21,476 | 122,578 |

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2020

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Equity instruments designated at FVOCI: | | | | |
| Non-listed equity investments | — | — | 3,600 | 3,600 |
| Financial assets at fair value through profit or loss | — | 110,680 | — | 110,680 |
| | — | 110,680 | 3,600 | 114,280 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2. The movements in fair value measurements within Level 3 during the year are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|--|-----------------|-----------------|
| Equity instruments designated at FVOCI: | | |
| At 1 January | 3,600 | 3,338 |
| Total gains recognised in other comprehensive income | 270 | (1,238) |
| Transfer out of the third level to Investments in Associates | (1,500) | — |
| Purchases | 19,106 | 1,500 |
| Disposals | — | — |
| At 31 December | 21,476 | 3,600 |

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis at the end of each of the year:

| | Valuation technique | Significant unobservable input | Range of inputs | |
|---|---------------------|--------------------------------------|------------------------|------|
| | | | As at 31 December 2021 | 2020 |
| Equity instruments designated at FVOCI: | | | | |
| Non-listed equity investments | Market approach | Discount for lack of marketability % | 30 | 30 |

The fair value of equity instruments designated at FVOCI is affected by changes in the discount for lack of marketability. If the discount for lack of marketability had increased/decreased by 10% with all other variables held constant, the fair value of equity instruments designated at FVOCI for the years ended 31 December 2021 and 2020 would have been approximately RMB1,810,897 and RMB63,462 lower/higher, respectively.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, equity instruments designated at FVOCI and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade payables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in HK\$ and US\$. In addition, the Company pays dividends in HK\$. Any significant exchange rate fluctuations of HK\$ or US\$ against RMB may have financial impacts on the Group.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and HK\$ exchange rate movement.

31 December 2021

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Foreign currency risk** (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK\$ and US\$ exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Increase/(decrease) in exchange rate % | Increase/(decrease) in profit before tax RMB'000 |
|---------------------------------|--|--|
| 2021 | | |
| If RMB weakens against HK\$ | 5 | 1,084 |
| If RMB strengthens against HK\$ | (5) | (1,084) |
| | | |
| If RMB weakens against US\$ | 5 | 395 |
| If RMB strengthens against US\$ | (5) | (395) |
| | | |
| 2020 | | |
| If RMB weakens against HK\$ | 5 | 4,106 |
| If RMB strengthens against HK\$ | (5) | (4,106) |

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables, and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type.

The following table demonstrates the concentrations of credit risk of the total trade receivables which were due from the Group's five largest distribution platforms or payment vendors.

| | As at 31 December | |
|---|--------------------------|-----------|
| | 2021 % | 2020 % |
| Percentage of total trade receivables due from: The Group's five largest trade receivables | 73.7 | 69.7 |

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group has applied the simplified approach to provide for impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information. Management estimated that the expected credit loss rates for the Group's trade receivables were 1.2% and 1.7% as at 31 December 2021 and 2020, respectively.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operation and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the years, based on the contractual undiscounted payments, was as follows:

| | As at 31 December 2021 | | | | |
|--|------------------------|----------------------------------|---|---------------------------------|------------------|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 year to 2 years RMB'000 | Total RMB'000 |
| Trade payables | 14,982 | — | — | — | 14,982 |
| Financial liabilities included in other payables and accruals | 79,776 | — | — | — | 79,776 |
| Lease liabilities | — | 1,854 | 4,853 | 3,003 | 9,710 |
| | 94,613 | 1,854 | 4,853 | 3,003 | 104,323 |
| | As at 31 December 2020 | | | | |
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 year to 2 years RMB'000 | Total RMB'000 |
| Trade payables | 10,484 | — | — | — | 10,484 |
| Financial liabilities included in other payables and accruals | 26,580 | — | — | — | 26,580 |
| Lease liabilities | — | 775 | 2,310 | 1,839 | 4,924 |
| | 37,064 | 775 | 2,310 | 1,839 | 41,988 |

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Capital management**

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

The directors of the Company review the asset-liability ratio, which is total liabilities divided by total assets, on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group balances its overall capital structure through the raising of new debts as well as the redemption of the existing debts, and manages the asset-liability ratios. The Group's overall strategy remained unchanged during the year.

The asset-liability ratios as at the end of each of the years are as follows:

| | As at 31 December | |
|-----------------------|-------------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Total assets | 1,487,844 | 856,134 |
| Total liabilities | 262,622 | 59,527 |
| Asset-liability ratio | 18% | 7% |

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year is as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-----------------|-----------------|
| NON-CURRENT ASSETS | | |
| Right-of-use asset | 457 | — |
| Total non-current assets | 457 | — |
| CURRENT ASSETS | | |
| Due from subsidiaries | 43,082 | 118,122 |
| Prepayments, other receivables and other assets | 263 | 5,501 |
| Financial assets at fair value through profit or loss | 918 | 945 |
| Cash and cash equivalents | 4,041 | 1,331 |
| Total current assets | 48,304 | 125,899 |
| CURRENT LIABILITIES | | |
| Due to subsidiaries | 3,017 | 2,588 |
| Other payables | — | 263 |
| Lease liabilities-current | 181 | — |
| Total current liabilities | 3,198 | 2,851 |
| NET CURRENT ASSETS | 45,106 | 123,048 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 45,563 | 123,048 |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities-non current | 288 | — |
| Total non-current liabilities | 288 | — |
| NET ASSETS | 45,275 | 123,048 |
| EQUITY | | |
| Issued capital | 8,946 | 8,946 |
| Treasury shares | (22,476) | — |
| Reserves (note) | 58,805 | 114,102 |
| Total equity | 45,275 | 123,048 |

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

| | Capital reserve RMB'000 | Share option reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|--|-------------------------------|------------------------------------|---|----------------------------------|------------------|
| Balance at 1 January 2021 | 125,459 | — | 1,196 | (12,553) | 114,102 |
| Loss for the year | — | — | — | (4,044) | (4,044) |
| Exchange differences on translation of foreign operations | — | — | (2,651) | — | (2,651) |
| Total comprehensive income for the year | — | — | (2,651) | (4,044) | (6,695) |
| Equity-settled share-based payment | — | 1,930 | — | — | 1,930 |
| Shares repurchased | (86) | — | — | — | (86) |
| Final 2021 dividend | (50,446) | — | — | — | (50,446) |
| At 31 December 2021 | 74,927 | 1,930 | (1,455) | (16,597) | 58,805 |

38. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 22 March 2022.

DEFINITIONS

| | |
|------------------------------|---|
| “AGM” | the annual general meeting of the Company proposed to be held on Friday, 27 May 2022 |
| “Announcement” | the announcement of the Company in relation to the Fingertip Interactive Structured Contracts dated 28 September 2020 |
| “ARPPU” | monthly average revenue per paying user, which represents the revenue for the period divided by the number of paying players in such period, and then divided by the number of months in such period |
| “Articles of Association” | the articles of associations of the Company conditionally adopted by the Board on 28 March 2019 and became effective on the Listing Date (and as amended and restated from time to time) |
| “Audit Committee” | the audit committee of the Board |
| “Board” | the board of Directors of the Company |
| “China” or “PRC” | the People’s Republic of China excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan |
| “Companies Law” | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time |
| “Company” | Zengame Technology Holding Limited (禪遊科技控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 August 2018 |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Sky-zen Capital Limited, J&L Y Limited, Mr. Ye Sheng and Mr. Yang Min |
| “Corporate Governance Code” | code on corporate governance practices contained in Appendix 14 to the Listing Rules |
| “DAU” | daily active users |
| “Dingyi” | Shenzhen Dingyi Technology Co., Ltd.* (深圳市鼎翌科技有限公司), a limited liability company established under the laws of the PRC on 29 May 2012 and a direct shareholder of Zen-Game Shenzhen |
| “Director(s)” | the director(s) of the Company |

| | |
|---|---|
| “Fingertip Interactive” | Shenzhen Zhijian Interactive Entertainment Co., Ltd.* (深圳市指尖互動娛樂有限公司), one of the PRC Operating Entities established under the laws of the PRC on 15 September 2020 |
| “Fingertip Interactive Equity Pledge Agreement” | the equity pledge agreement entered into by and among the Fingertip Interactive Registered Shareholders and Tiantianlaiwan dated 27 September 2020 |
| “Fingertip Interactive Exclusive Call Option Agreement” | the exclusive call option agreement entered into by and among Tiantianlaiwan and the Fingertip Interactive Registered Shareholders dated 27 September 2020 |
| “Fingertip Interactive Exclusive Consultancy and Technical Service Agreement” | the exclusive consultancy and technical service agreement entered into by and among Tiantianlaiwan and the Fingertip Interactive Registered Shareholders dated 27 September 2020 |
| “Fingertip Interactive IP License Agreement” | the intellectual property license agreement entered into by and among the Fingertip Interactive Registered Shareholders and Tiantianlaiwan dated 27 September 2020 |
| “Fingertip Interactive Loan Agreement” | a financial assistance framework agreement entered into by and among Tiantianlaiwan and the Fingertip Interactive Registered Shareholders dated 27 September 2020 |
| “Fingertip Interactive Registered Shareholders” | direct shareholders of Fingertip Interactive, being Mr. Zhu Weijie (朱偉傑) and Mr. Kang Yonghong (康永宏), who are employees of the Group and one of the shareholders of Hezhongshiji |
| “Fingertip Interactive Shareholders’ Powers of Attorney” | the shareholders’ powers of attorney entered into by the Fingertip Interactive Registered Shareholders in favour of Tiantianlaiwan dated 27 September 2020 |
| “Fingertip Interactive Shareholders’ Rights Entrustment Agreement” | the shareholders’ rights entrustment agreement entered into by and among the Fingertip Interactive Registered Shareholders, and Tiantianlaiwan dated 27 September 2020 |
| “Fingertip Interactive Spouse Undertakings” | collectively, the spouse undertakings executed by Ms. Jiang Siyang (蔣斯楊) (the spouse of Mr. Zhu Weijie (朱偉傑)) and Ms. Sun Xiaohui (孫小慧) (the spouse of Mr. Kang Yonghong (康永宏)) dated 27 September 2020 |

Definitions

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|--|--|
| “Fingertip Interactive Structured Contracts” | Collectively, the Fingertip Interactive Exclusive Consultancy and Technical Service Agreement, the Fingertip Interactive IP License Agreement, the Fingertip Interactive Exclusive Call Option Agreement, the Fingertip Interactive Equity Pledge Agreement, the Fingertip Interactive Shareholders’ Rights Entrustment Agreement, the Fingertip Interactive Shareholders’ Powers of Attorney, the Fingertip Interactive Spouse Undertakings and the Fingertip Interactive Loan Agreement, details of which are set out in the section headed “New Structured Contracts” in the Announcement |
| “Foreign Investment Law” | the Foreign Investment Law of the PRC (中華人民共和國外商投資法), as enacted by the thirteenth National People’s Congress on 15 March 2019 which will be effective on 1 January 2020 |
| “Free-to-Play” | a business model which players can play games for free, but may need to pay for virtual items sold in games to enhance their game experience |
| “Group” | collectively, the Company and its subsidiaries |
| “Hezhongshiji” | Shenzhen Hezhongshiji Technology Co., Ltd.* (深圳市和眾世紀科技有限公司), a limited liability company established under the laws of the PRC on 29 May 2012 and a direct shareholder of Zen-Game Shenzhen |
| “HK\$”, “HKD” and “cents” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| “HKFRS” | Hong Kong Financial Reporting Standards |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hudongyule” | Shenzhen Zen-Game Hudongyule Co., Ltd.* (深圳市禪遊互動娛樂有限公司), one of the PRC Operating Entities established under the laws of the PRC on 30 November 2011 and wholly-owned by Zen-Game Shenzhen |
| “Leduohudong” | Shenzhen Leduohudong Technology Co., Ltd.* (深圳市樂多互動科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 4 June 2015 and wholly-owned by Zen-Game Shenzhen |

| | |
|--------------------------|---|
| “Leqi Technology” | Shenzhen Leqi Technology Co., Ltd.* (深圳市樂其科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 29 June 2015 and wholly-owned by Zen-Game Shenzhen |
| “Listing” | the listing of the Company’s Shares on the Main Board of the Stock Exchange |
| “Listing Date” | 16 April 2019, the date on which the Shares were listed on the Stock Exchange |
| “Listing Rules” | The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange |
| “MAU” | monthly active users |
| “Model Code” | the model code for securities transactions by directors of listed issuers as set out in Appendix 10 to the Listing Rules |
| “MPU” | monthly playing users |
| “Nomination Committee” | the nomination committee of the Board |
| “PRC Operating Entities” | the entities we control through the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts, being Collectively Zen-Game Shenzhen Entities and Fingertip Interactive, the financial accounts of which have been consolidated and accounted for as if they were subsidiaries of the Company by virtue of the Zen-Game Shenzhen Structured Contracts and the Fingertip Interactive Structured Contracts |
| “Prospectus” | the prospectus issued by the Company dated 3 April 2019 |
| “Remuneration Committee” | the remuneration committee of the Board |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “RSU(s)” | the restricted share unit(s) to be granted under the RSU Scheme |
| “RSU Nominee” | Hezhong Power Limited, a limited liability company incorporated in the BVI and a wholly-owned subsidiary of Core Trust which will hold the Shares underlying the RSUs for the benefit of eligible participants pursuant to the RSU Scheme |

Definitions

| | |
|------------------------------|--|
| “RSU Scheme” | the restricted share unit scheme approved and adopted by a resolution of the Board dated 9 October 2018, the principal terms of which are summarized under the section headed “Statutory and General Information — F. RSU Scheme and Share Option Scheme — 1. RSU Scheme” in Appendix IV to the Prospectus |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Share Award Scheme” | the share award scheme adopted by the Company on 24 June 2021, the principal terms of which are summarized in the announcement made by the Company dated 24 June 2021 |
| “Share Option Scheme” | the share option scheme conditionally adopted by the Company on 28 March 2019, the principal terms of which are summarized under the section headed “Statutory and General Information — F. RSU Scheme and Share Option Scheme — 2. Share Option Scheme” in Appendix IV to the Prospectus |
| “Shareholder(s)” | the shareholder(s) of the Company |
| “Shenzhen Laiwan” | Shenzhen Laiwan Technology Co., Ltd.* (深圳市來玩科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 15 September 2014 and wholly-owned by Zen-Game Shenzhen |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed to it under the Listing Rules |
| “substantial Shareholder(s)” | has the meaning ascribed to it under the Listing Rules |
| “Tianchan” | Shenzhen Tianchan Technology Co., Ltd.* (深圳市天禪科技有限公司), a limited liability company established under the laws of the PRC on 25 May 2012 and a direct shareholder of Zen-Game Shenzhen |
| “Tiantianlaiwan” | Shenzhen Tiantianlaiwan Technology Co., Ltd.* (深圳市天天來玩科技有限公司), a limited liability company established under the laws of PRC on 29 September 2018 and an indirect wholly-owned subsidiary of our Company |

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|---|---|
| “Zen-game HK” | ZEN-GAME (HONGKONG) LIMITED (禪遊(香港)有限公司), a limited liability company incorporated in Hong Kong on 21 May 2015 and an indirect wholly-owned subsidiary of the Company |
| “Zen-game Shanghai” | Shanghai Zen-Game Technology Co., Ltd.* (上海禪遊科技有限公司), one of the PRC Operating Entities established under the laws of the PRC on 9 August 2016 and wholly-owned by Zen-Game Shenzhen |
| “Zen-game Shanghai (Shenzhen Branch)” | Shanghai Zen-Game Technology Co., Ltd. (Shenzhen Branch)* (上海禪遊科技有限公司深圳分公司), a branch Company of Zen-Game Shanghai established under the laws of the PRC on 2 September 2016 |
| “Zen-Game Shenzhen” | Shenzhen Zen-Game Technology Co., Ltd.* (深圳市禪遊科技股份有限公司), an indirect wholly-owned subsidiary of the Company |
| “Zen-Game Shenzhen Entities” | collectively, Zen-Game Shenzhen, Hudongyule, Shenzhen Laiwan, Leduohudong, Leqi Technology, Zen-Game Shanghai and Zen-Game Shanghai (Shenzhen Branch) |
| “Zen-Game Shenzhen Exclusive Call Option Agreement” | the exclusive call option agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Zen-Game Shenzhen Registered Shareholders dated 27 October 2018 |
| “Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement” | the exclusive consultancy and technical service agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Zen-Game Shenzhen Registered Shareholders dated 27 October 2018 |
| “Zen-Game Shenzhen IP License Agreement” | the intellectual property license agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Zen-Game Shenzhen Registered Shareholders dated 27 October 2018 |
| “Zen-Game Shenzhen Loan Agreement” | a financial assistance framework agreement entered into by and among Tiantianlaiwan, Zen-Game Shenzhen and the Zen-Game Shenzhen Registered Shareholders dated 25 March 2019 |
| “Zen-Game Shenzhen Registered Shareholders” | direct shareholders of Zen-Game Shenzhen, being Tianchan, Dingyi, Shenzhen Dechangqing Technology Co., Ltd.* (深圳市德常青科技有限公司), Hezhongshiji, Shenzhen Palaya Technology Co., Ltd.* (深圳市帕拉亞科技有限公司), Shenzhen Befortune Investment Co., Ltd.* (深圳市伯符投資有限公司), Xizang Taifu Wenhua Chuanmei Co., Ltd.* (西藏泰富文化傳媒有限公司) and Shenzhen Dewenshiji Technology Co., Ltd.* (深圳市德文世紀科技有限公司) |

Definitions

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|--|---|
| “Zen-Game Shenzhen Share Pledge Agreement” | the share pledge agreement entered into by and among the Zen-Game Shenzhen Registered Shareholders, Zen-Game Shenzhen and Tiantianlaiwan dated 27 October 2018 |
| “Zen-Game Shenzhen Shareholders’ Rights Entrustment Agreement” | the shareholders’ rights entrustment agreement entered into by and among the Zen-Game Shenzhen Registered Shareholders, and Tiantianlaiwan dated 27 October 2018, and as amended and supplemented by a supplemental agreement dated 8 January 2019 |
| “Zen-Game Shenzhen Spouse Undertakings” | collectively, the spouse undertakings executed by Ms. Xie Yingying (the spouse of Mr. Ye Sheng) and Ms. Jiang Qian (the spouse of Mr. Yang Min) dated 27 October 2018, and the spouse undertakings executed by Mr. Zeng Liqing (the spouse of Ms. Zhang Wei), Mr. Wang Haiyang (the spouse of Ms. Li Wen) and Ms. Liu Ying (the spouse of Mr. Zhang Dexiang) dated 3 January 2019, and the spouse undertakings executed by Ms. Jiang Siyang (the spouse of Mr. Zhu Weijie), Ms. Chen Jie (the spouse of Mr. Huang Yucong) dated 14 February 2019, and the spouse undertakings executed by Ms. Huang Ping (the spouse of Mr. Yu Xi), Ms. Sun Xiaohui (the spouse of Mr. Kang Yonghong) and Mr. Chen Jialei (the spouse of Ms. Xie Biyu) dated 15 February 2019 and the spouse undertakings executed by Mr. Ye Sheng, Mr. Ye Sheng’s father, Mr. Yang Min and Ms. Jiang Qian’s father dated 27 September 2020 |
| “Zen-Game Shenzhen Structured Contracts” | collectively, the Zen-Game Shenzhen Exclusive Consultancy and Technical Service Agreement, the Zen-Game Shenzhen IP License Agreement, the Zen-Game Shenzhen Exclusive Call Option Agreement, the Zen-Game Shenzhen Share Pledge Agreement, the Zen-Game Shenzhen Shareholders’ Rights Entrustment Agreement, Zen-Game Shenzhen the Shareholders’ Powers of Attorney, the Zen-Game Shenzhen Spouse Undertakings and the Zen-Game Shenzhen Loan Agreement, details of which are set out in the section headed “Structured Contracts” in the Prospectus |
| “Zhuhai Zhangyou” | Zhuhai Zhangyou Technology Co., Ltd.* (珠海市掌遊科技有限公司), a limited liability company established under the laws of PRC on 11 March 2019 and an indirect wholly-owned subsidiary of the Company |
| “%” | per cent |