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You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant’s Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with HKFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entirety of the Accountant’s Report included in Appendix I to this document and not rely merely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed “Risk Factors” and “Business.”

For the purpose of this section, unless the context otherwise requires, references to 2019, 2020 and 2021 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is on a consolidated basis.

OVERVIEW

We are a mobile game developer, publisher and operator in the PRC with a focus on mobile sports simulation games for global markets. In 2021, we ranked second in the mobile sports simulation game market in the PRC in terms of revenue from mobile sports simulation game, representing a market share of approximately 12.4% and ranked second in the mobile sports game market in the PRC in terms of revenue from mobile sports game with a market share of approximately 7.9%.

Over the years, we developed and operated primarily mobile sports games. As of the Latest Practicable Date, we developed and operated four mobile sports games, among which *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Football Champion* (最佳11人 — 冠軍球會) formed the backbone of our business and contributed the majority of our revenue during the Track Record Period. We have cultivated our user base from *Football Master* (足球大師), our first flagship mobile sports management simulation game launched in July 2014. Leveraging our success of *Football Master* (足球大師), we developed and launched our second mobile sports management simulation game, *NBA Basketball Master* (NBA籃球大師) in September 2017. Our *Football Champion* (最佳11人 — 冠軍球會) was launched in April 2020 with enhanced realistic graphics to feature more authentic 3D simulation on professional player’s motion. In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) has been featured and demonstrated on the display of the latest Apple iPad model as of the Latest Practicable Date.

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Leveraging the success of our four signature mobile sports games, we are committed to making continuous effort in capturing the market opportunities in the mobile sports game industry in the PRC and overseas markets to expand our mobile sports game portfolio. As of the Latest Practicable Date, we had a pipeline of three new mobile sports games, which are expected to be launched by the third quarter of 2022, the second half of 2023 and the second half of 2024, respectively. To create attractive game content, we formed valuable and strategic relationships with IP right holders, including renowned sports league, sports associations and sports clubs, including FIFPro, NBA, NBPA, Juventus F.C., Manchester City F.C., F.C. Bayern Munich, Paris Saint-Germain F.C., Borussia Dortmund and F.C. Barcelona. Our game development and operational capabilities have secured us the recognition by these sports league, sports associations and sports clubs, who grant us IP right licenses to sustain the long-term popularity of our games.

During the Track Record Period, the majority of our revenue was derived from our self-developed mobile sports games launched in both the PRC and overseas markets. All of our games are introduced on a free-to-play model and we generate our revenue from users by monetizing in-game purchases of virtual items. As a result of our efforts in capturing the market opportunities in the mobile sports game industry and driving user engagement, we have experienced a stable growth during the three years ended December 31, 2021, generating a revenue of approximately RMB378.6 million, RMB404.7 million and RMB459.9 million, respectively, representing a CAGR of approximately 10.2% during 2019 to 2021. For the six months ended June 30, 2022, we recorded a revenue of RMB294.8 million, representing a significant increase of approximately RMB113.8 million, or 62.9%, from RMB181.0 million for the six months ended June 30, 2021. During the Track Record Period, our net profit was approximately RMB45.7 million, RMB40.7 million, RMB39.4 million and RMB20.3 million, respectively. Excluding the [REDACTED] expenses and the net fair value changes on the Pre-[REDACTED] Convertible Bonds, our adjusted net profit during the same periods would be approximately RMB49.9 million, RMB45.5 million, RMB56.7 million and RMB27.3 million, respectively (non-HKFRSs measure).

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which are outside of our control, including the following:

Our ability to develop, publish and operate engaging and popular mobile sports games

Substantially most of our revenue is generated from our self-developed games. Our ability to successfully leverage our expertise and development capability to enlarge our game portfolio in the PRC and overseas markets with attractive gamification features will be critical to retaining and expanding our user base, and maintaining our revenue and profit growth.

During the Track Record Period, mobile sports games accounted for approximately 99.8%, 99.8%, 100.0% and 100.0% of our revenue, respectively and we intend to focus on mobile sports games for the foreseeable future. According to the Frost & Sullivan Report, the market size of mobile sports games in the PRC increased from RMB1.6 billion in 2016 to RMB5.8 billion in 2021, registering a CAGR of approximately 29.4%. The market size is

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expected to grow at a CAGR of 12.4% from 2021 to 2026 to RMB10.4 billion. As a result, our ability to develop and publish attractive games depends in part, on our ability to keep abreast of the evolving trend of popularity and latest development in the sports markets, and our prompt responsiveness to enhance the gameplay experiences of our existing games and develop new games to capture new opportunities in the PRC and overseas markets.

Our ability to monetize user experience

Our results of operations are dependent upon our ability to convert our game users into paying users. All of our existing games during the Track Record Period were offered in a free-to-play model. We believe this freemium model is crucial to inducing a larger population of users to try out our games at their early-growth stage. Once the users become familiar with and engaged in our games, our monetization tactics will kick in where we offer a wide variety of in-game virtual items, the application of which will enhance their in-game experiences with the boosting, acquiring or upgrading of athletes, coaches and/or teams, that attract them to become paying users. For such reasons, our business growth and financial performance rely on our ability to develop and operate commercially successful games which attract a high number of users who are willing to pay for such in-game virtual items. To do so, we would rely on our research and development capabilities to optimize user experience for our users and also our market strategies to effectively attract our users to continuously purchase our in-game virtual items. We would also rely on our ability to secure IP right licenses from renowned sports leagues, sports associations and sports clubs in order to provide authentic user experience in our mobile sports games. The following table sets forth the number of average MPUs and ARPPU for our entire game portfolio during the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>(in units for average MPUs and in RMB for ARPPU)</i>				
Average MPUs	67,055	73,059	82,833	65,574	98,755
ARPPU	464	475	485	459	525

According to the Frost & Sullivan Report, after a game is launched, over time during its stable and mature stage, it is typical to have a lower average DAUs, average MAUs and average MPUs while having a relatively higher ARPPU when compared with its early growth stage due to the greater spending propensity of the keener players and the retention loss of less keen players. Please refer to the section headed “Business — Our users” to this document for data of cumulative registered players, average DAUs, average MAUs, average MPUs and ARPPU of our games and detailed analysis of their fluctuations.

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The following tables set forth a sensitivity analysis illustrating the impact of hypothetical fluctuations of ARPPU on our revenue assuming the average MPUs remains constant and no other accounting impact during the Track Record Period:

	For the year ended December 31,			For the
	2019	2020	2021	six months
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	ended
				June 30,
				2022
				<i>(RMB'000)</i>
Change in revenue				
Increase/decrease by 10%	37,863	40,475	45,985	29,478
Increase/decrease by 20%	75,726	80,949	91,970	58,955
Increase/decrease by 30%	113,589	121,424	137,955	88,433

Our future growth will largely depend on whether we are able to retain our existing active paying users and attract new paying users by devising more competitive strategies to enhance our game monetization. We will continue to stimulate users’ interests and drive in-game purchases by improving the quality of our games, introducing new game features and services and in-game virtual items and launching additional in-game promotions and other activities.

Our ability to maintain our publishing network on favorable terms

In terms of game publishing, we mainly rely on self publishing. We self-publish our games by (i) collaborating directly with third-party distribution platforms, such as application marketplaces to allows users to download our games; (ii) providing QR codes on our official website for visitors to download and install our games; and (iii) commissioning advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. To a lesser extent, we also partner with third-party publishers to publish and promote our games. For details of the specific arrangements, please refer to the section headed “Business — Game Publishing” to this document. The growth of our user base depends on our ability to make our games available for download to users in the PRC and abroad. Substantially all our games were published on third-party distribution platforms such as Huawei, Xiaomi, OPPO, Vivo, Tencent Appstore, TapTap, Google Play and the Apple AppStore.

For revenue generated from our self-developed games on third-party distribution platforms, the third-party distribution platforms and third-party payment vendors (the “**Platforms**”) collect payments directly from the users and the Platforms are entitled to commission fees which are withheld and deducted from the gross proceeds collected from the users, with the net amounts remitted to us. For revenue generated from games published by third-party publishers through their own designated platforms, including web-based version and through mobile application marketplaces, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or its designated

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distribution and payment platforms and revenue is shared between us and such third-party publishers at a pre-determined rate. Commission fees to third-party distribution platforms and revenue sharing to third-party publishers constituted 76.0%, 73.7%, 72.9% and 71.6% of our total cost of revenue during the Track Record Period. Our current and future game distribution arrangements with our third-party distribution platforms and publishers could have a significant impact on our operating results. Our ability to maintain and expand our publishing network on favorable terms is critical to our continued success.

The following tables set forth a sensitivity analysis illustrating the impact of hypothetical fluctuations of our commission fees paid to third-party distribution platforms and revenue sharing with third-party publishers on our profit during the Track Record Period:

	For the year ended December 31,			For the
	2019	2020	2021	six months
	(RMB'000)	(RMB'000)	(RMB'000)	ended
				June 30,
				2022
				(RMB'000)
Change in profit for the year				
Increase/decrease by 10%	15,770	16,546	17,378	10,453
Increase/decrease by 20%	31,541	33,092	34,756	20,907
Increase/decrease by 30%	47,311	49,638	52,134	31,360

General conditions affecting the sports game and online game industry

We are primarily focused on the online game industry, in particular the mobile sports game market. Therefore, our results of operations are affected by general conditions affecting China’s and overseas online game and mobile sports game industry, including the overall economic condition, the local penetration of mobile phones and mobile internet infrastructure, the regulatory environment, the demand for online games, and user preference. According to the Frost & Sullivan Report, the size of the online game market in the PRC grew at a CAGR of 15.8% in the last five years, from RMB151.0 billion in 2016 to RMB315.1 billion in 2021 and is estimated to further increase to RMB436.1 billion in 2026. The market expansion was mainly attributable to the ubiquitous mobile phones and development of technological advancement in hardware and display, processing, storage, interfaces, network bandwidth and operating system functionality which, in particular, contribute to the growing market of mobile game in the PRC at a CAGR of 22.1% from RMB97.2 billion in 2016 (64.4% of the entire online game market at the time) to RMB263.9 billion in 2021 (83.8% of the entire online game market at the time), and is expected to continue to grow at a CAGR of 7.9% to reach RMB385.4 billion in 2026 due to the continuous technology upgrading and deployment of 5G internet in the future. The global market size of online games also registered stable growth during the past five years, increasing from US\$77.0 billion in 2016 to US\$154.1 billion in 2021 at a CAGR of 14.9%. With the continuously improving online game experiences brought by the cutting edge technology and upgrading devices such as VR and 3D wiggle stereoscopy, the global market

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size of online games is anticipated to maintain an upward trend to reach US\$223.0 billion by 2026. In particular, sports game is one of the genre of online games, which takes approximately 4% to 6% of the total market size in the global online game market. The market size of mobile sports simulation games and mobile battle sports games increased rapidly at a CAGR of 35.8% and 21.3% from 2016 to 2021, respectively, in the PRC. For further details, see the section headed “Industry Overview” in this document. Changes in the conditions affecting China’s and overseas online game industry would have a significant impact on our business and prospects. For details, please also see the section headed “Risk Factors — We may not be able to anticipate or successfully adapt to new trends and may face increasingly intense competition in the mobile game industry which makes it difficult for us to evaluate our business and prospects” in this document.

Advertising and marketing of our games

To attract new game players and enhance our brand recognition, we aim to devise effective marketing strategies to promote our games. Our main advertising efforts include promoting our games through online advertisements on various social media platforms. We also operate our social media accounts on a regular basis to actively communicate with all of our users and launch promotional activities, such as virtual item giveaways to enhance user engagement. Although we do engage third-party advertising agencies for advertising services, such services mainly involve publicising our advertisements on various platforms, the advertising content of which have been created by our in-house content creation team together with our sales and marketing team. The advertising fees paid to advertising and marketing agencies would be referenced to the amount of advertisement posts or the number of user actions, such as cost per day, cost per click, cost per million impressions, cost per try and cost per action.

Our advertising and marketing expenses of a game will also fluctuate along with the progression of its lifecycle. Typically, at the early growth stage, the advertising and marketing expenses of a game tend to increase rapidly and remain at a relative high level as a result of the comprehensive marketing and promotion campaigns at the beginning stage in order to increase the exposure of the game and to attract a large base of users within a relatively short period of time. At the stable and mature stage, the overall advertising and marketing expenses of a game tend to be stable and lower than the early growth stage as we maintain regular advertising and marketing efforts for a game. Also, advertising efforts at this stage would be more focused on increasing monetization of our loyal paying users.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, we incurred advertising and marketing expenses of approximately RMB54.5 million, RMB56.3 million, RMB76.5 million and RMB67.7 million, accounting for approximately 14.4%, 13.9%, 16.6% and 23.0% of our total revenue, and approximately 90.4%, 89.5%, 89.3% and 92.3%, of our total selling and marketing expenses respectively.

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The following tables set forth a sensitivity analysis illustrating the impact of hypothetical fluctuations of our advertising and marketing expenses on our profit during the Track Record Period:

	For the year ended December 31,			For the
	2019	2020	2021	six months
	(RMB'000)	(RMB'000)	(RMB'000)	ended
				June 30,
				2022
				(RMB'000)
Change in profit for the year				
Increase/decrease by 10%	5,447	5,631	7,645	6,774
Increase/decrease by 20%	10,894	11,262	15,290	13,548
Increase/decrease by 30%	16,340	16,893	22,935	20,323

Therefore, any significant change in our advertising and marketing expenses would have a significant impact on our results of operations.

Research and development

Research and development is considered a vital part of our business growth due to the nature of our business model as the majority of our games are self-developed games. We have therefore committed significant resources in building up our in-house game development, research and development team as well as our independent capabilities to develop engaging and popular mobile games. During the Track Record Period, we incurred research and development expenses of approximately RMB40.1 million, RMB45.2 million, RMB62.7 million and RMB37.5 million, accounting for approximately 10.6%, 11.2%, 13.6% and 12.7% of our total revenue, respectively. As of the Latest Practicable Date, we had a total of 215 research and development staff, accounting for approximately 62.5% of our total number of employees. As we expect to continue to strengthen our research and development efforts in order to launch new games with more sophisticated game experience and to strive for more future research and development breakthroughs, we intend to hire more employees dedicated to research and development, which would directly impact our research and development expenses since employees benefits and salaries constituted the majority of such expenses. Accordingly, any significant changes in the composition and compensation of our game development, research and development team and the research and development expenses would have a significant impact on our results of operations.

Foreign exchange

We are exposed to foreign exchange rate risk arising from our commercial transactions and recognized assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within our Group. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

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Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss on a net basis.

If US\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB4.2 million, RMB2.4 million, RMB1.6 million and RMB1.7 million higher/lower, for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in US\$.

If EUR had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB0.6 million, RMB0.7 million, RMB0.8 million and RMB0.9 million lower/higher for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively, as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in EUR.

If HK\$ had strengthened/weakened by 5% against RMB with all other variables held constant, the post-tax income would have been approximately RMB0.3 million and RMB0.5 million higher/lower for the years ended December 31, 2019 and 2020, respectively as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in HK\$, while the post-tax income would have been approximately RMB2.8 million and RMB3.2 million lower/higher for the year ended December 31, 2021 and the six months ended June 30, 2022, respectively, as a result of net foreign exchange losses/gains on translation of net monetary liabilities denominated in HK\$.

Preferential tax treatment

Generally, the income tax provision of our Group in respect of our operations in the PRC was calculated at the tax rate of 25% on the assessable profits based on the existing legislation, interpretations and practices in respect thereof, except for stated below:

During the Track Record Period, we have benefited from a series of preferential tax treatment in the PRC, which had contributed to our results of operations. Wangchen Technology has obtained its qualification as a “High and New Technology Enterprise” (“HNTe”) in December 2019 and it was entitled to a reduced preferential CIT rate of 15% for the years ended December 31, 2019 and 2020 according to the tax preference applicable to the HNTe. Wangchen Technology was subject to CIT rate of 25% for the year ended December 31, 2021 and the six months ended June 30, 2022. The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone” and it was subject to a reduced preferential CIT tax rate of 15% for the year ended 31 December 31, 2021 and the six months ended June 30, 2022. According to the relevant laws and regulations promulgated by the PRC State Administration of Taxation that was effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim up to 175% of their qualified research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (“**Super Deduction**”).

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These preferential tax treatments and Super Deduction have lowered our income tax expenses. The tax effect of the preferential tax rates and Super Deduction amounted to RMB9.8 million, RMB10.2 million, RMB10.6 million and RMB5.4 million for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively resulting in our effective tax rate of approximately 9.6%, 9.1%, 5.6% and 14.9% for the same periods. However, there is no assurance that no further change will be made to the PRC tax policies or industry encouraging policies that could materially and adversely affect our results of operations. If there is any further change to the preferential tax treatment that we had been enjoying during the Track Record Period, our income tax expenses may increase significantly, which would materially and adversely affect our financial condition and profitability. Please refer to the section headed “Risk Factors — Failure to obtain government grants and subsidies or preferential tax treatments that may be available to us, or discontinuation, reduction or delay of any of the government grants or preferential tax treatments currently enjoyed by us in the future could materially and adversely affect our business, financial condition and results of operations.”

BASIS OF PRESENTATION

Immediately prior to the Reorganisation, our Group’s business was carried out through the PRC Operating Entities. Pursuant to the Reorganisation, the PRC Operating Entities, through direct equity holding and the Contractual Arrangements, and Gala Sports HK are effectively controlled by Gala Technology (BVI), and ultimately controlled by our Company. Our Company and those intermediate holding companies newly set up during the Reorganisation have not been involved in any other business prior to the Reorganisation and their operations do not meet the definition of a business. The Reorganisation is merely a recapitalisation of our Group’s business with no change in management of such business and the ultimate owners of our Group’s business remain substantially the same. Accordingly, our Group resulting from the Reorganisation is regarded as a continuation of our Group’s business conducted through our Company and the Historical Financial information of the companies now comprising our Group is presented using the respective carrying value of our Group’s business for all periods presented.

Intercompany transactions, balances and unrealised gains/losses on transactions between subsidiaries now comprising our Group are eliminated upon combination.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The discussion and analysis of our results of operations and financial conditions are based on our consolidated financial information prepared in accordance with HKFRSs. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management’s

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estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, including any changes in accounting policy and disclosures, are set forth in detail in notes 2 and 4 to the Accountant’s Report in Appendix I to this document. We set forth below those accounting policies that we believe to involve the most significant estimates and judgements used in the preparation of our financial statements.

Game revenue recognition

We are a mobile sports game developer, publisher and operator. Revenue generated from our self-developed games are derived principally from various arrangements, including games published by us and distributed via third-party distribution platforms and games published by other third-party game publishers under various game publishing arrangements. Our games are operated under a free-to-play model whereby users can download the games free of charge and are charged for the purchase of in-game virtual items by third-party payment vendors.

For revenue generated from our games published by us, the third-party distribution platforms and the payment vendors (together, the “**Platforms**”) are entitled to commission fees or handling fees, as the case may be, which are withheld and deducted from the gross proceeds collected from the game users, with the net amounts remitted to us. For revenue generated from our games published by third-party publishers through their own designated platforms, including web-based version and through mobile application marketplaces, proceeds from the sale of in-game tokens and other virtual items are collected by the third-party publishers or its designated distribution and payment platforms and revenue is shared between us and such third-party publishers at a pre-determined rate. We recognize the revenue on a gross basis, with the commission charged by the Platforms and revenue sharing to the third-party publishers as the cost of revenue.

Regardless of revenue generated from our games published by us or from our games published by third-party publishers under certain game publishing arrangements, as we are obliged to provide on-going services to users who purchased virtual items over an average playing period, and accordingly, we recognize revenues rateably over the estimated average playing period of these paying users starting from the point in time when game tokens or other virtual items are delivered to the users’ accounts, and all other revenue recognition criteria are met. As the games are operated under a free-to-play model and revenue is generated from paying users when they purchase game tokens for in-game virtual items, we focus on the playing period of paying users when estimating the period over which revenue is being recognized. For consumable virtual items which are extinguished after consumption in the form of fixed charges levied on each round of games played, revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered. For durable virtual items which are accessible and beneficial to users over an extended period of time, such as players, jersey of the players and permanent in-game tools,

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revenue is recognised rateably over the average life of durable virtual items for the applicable game, which we make best estimates to be average playing period of paying users (“**User Relationship Period**”). Regarding the User Relationship Period, we track each of our paying users’ purchases and log in history for each significant game to estimate the average playing period of the paying users. If a new game is launched and only a limited period of paying user data are available, we would then consider other qualitative factors, such as the playing patterns of paying users for other games with similar characteristics. The User Relationship Period is assessed on a game-by-game basis.

If we do not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, we recognize revenue from both durable and consumable virtual items for that game rateably over the User Relationship Period.

While we believe the estimates to be reasonable based on available game user information, we may revise such estimates in the future as the games’ operation periods change, more sufficient individual game data become available, or there is indication that the similarities in characteristics with other games and playing patterns of paying users of the games change. Any adjustments arising from changes in User Relationship Period would be applied prospectively on the basis that such changes are caused by new information indicating a change in user behaviour patterns. Any changes in our Group’s User Relationship Period may result in revenues being recognised on a basis different from prior periods’ and may cause its operating results to fluctuate.

Contract liabilities and contract costs

Contract liabilities primarily consist of the unamortized revenue from sales of game tokens and virtual items for mobile games, where there is still an implied obligation to be provided by our Group and will be recognized as revenue when all of the revenue recognition criteria are met.

Contract costs primarily refer to incremental costs of obtaining a contract, including unamortized commission fee charged by the Platforms and unamortized revenue sharing to third-party publishers which are capitalised if they are expected to be recovered. Capitalized contract costs are amortized on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates.

Intangible assets

Licenses

Under certain licensing arrangements we entered with IP right holders, we pay upfront license fees to IP right holders as we are entitled to the non-exclusive rights to use the intellectual properties in specified geographic areas for certain period of time. A license has a definite useful life and is carried at amortized cost less accumulated amortisation and accumulated impairment loss, if any. They are initially measured at fair value of the

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consideration required at the time of the acquisition. The consideration required represents the non-cancellable upfront fee and the capitalized present values of the fixed royalty fee to be made in subsequent years in respect of obtaining the IP right licenses.

Licenses are amortized on a straight-line basis in accordance to the license period for one to four years. These amortisation are expensed to the cost of revenue (where the games are commercially launched) or general and administrative expenses (where the games are not yet commercially launched).

Payment of upfront license fees for the cancellable licenses are recognized as prepayment in the consolidated statements of financial position and amortized on a straight-line basis in accordance to the license period.

Research and development expenses

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled as follows: (i) it is technically feasible to complete the game product so that it will be available for use; (ii) the management intends to complete the game product and use or sell it; (iii) there is an ability to use or sell the game product; (iv) it can be demonstrated how the game product will generate probable future economic benefits; (v) adequate technical, financial and other resources to complete the development and to use or sell the game product are available; and (vi) the expenditure attributable to the game product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognized as expenses as incurred.

Development costs previously recognized as expenses are not recognized as assets in subsequent periods. Capitalized development costs are amortized from the point at which the assets are ready for use on a straight-line basis over their useful lives. Research and development expenses consist primarily of salaries and benefits for our research and development personnel.

During the Track Record Period, all research and development expenditures were recognized in profit or loss as they do not meet the recognition criteria for capitalization.

Software

Acquired software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (one to ten years). Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

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Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where we have a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Equity-settled share-based payment

We operate a number of equity-settled share-based compensation, under which we receive services from employees as consideration for equity instruments of our Group. The fair value of the employee services received in exchange for the grant of equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted including any market performance conditions and the impact of any non-vesting conditions, but excluding the impact of any service and non-market performance vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the vesting period, which is the period over when all of the specified vesting conditions are to be satisfied. At the end of each reporting period, we would revise our estimates of the number of share options that are expected to vest based on non-marketing vesting conditions. We recognize the impact of the revision to estimates, if any, in the profit or loss with corresponding adjustment to equity.

Financial liability at fair value through profit or loss

We recognized the Pre-[REDACTED] Convertible Bonds as a financial liability at fair value through profit or loss, which is initially measured at fair value. Any directly attributable transaction costs are recognized in profit or loss. Subsequent to the initial recognition, the component of fair value changes relating to our own credit risk is recognized in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risks are recognized in profit or loss.

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FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table presents items of the consolidated statements of comprehensive income of our Group in absolute amounts and as percentages to our total revenue for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Revenue	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0
Cost of revenue	(207,529)	(54.8)	(224,354)	(55.4)	(238,324)	(51.8)	(98,332)	(54.3)	(145,910)	(49.5)
Gross profit	171,101	45.2	180,391	44.6	221,527	48.2	82,642	45.7	148,865	50.5
Other gains/(losses), net	669	0.2	(4,903)	(1.2)	(1,137)	(0.2)	733	0.4	1,034	0.3
Other income	962	0.3	1,931	0.5	3,319	0.7	1,354	0.8	3,594	1.2
Selling and marketing expenses	(60,278)	(15.9)	(62,889)	(15.5)	(85,590)	(18.6)	(31,992)	(17.7)	(73,445)	(24.9)
General and administrative expenses	(23,225)	(6.1)	(21,119)	(5.2)	(34,589)	(7.5)	(22,062)	(12.2)	(17,461)	(5.9)
Research and development expenses	(40,092)	(10.6)	(45,232)	(11.2)	(62,705)	(13.6)	(25,689)	(14.2)	(37,508)	(12.7)
(Net impairment losses)/reversal of impairment loss on financial assets	(129)	*	(3,788)	(0.9)	160	*	2	*	(1,772)	(0.6)
Operating profit	49,008	12.9	44,391	11.0	40,985	8.9	4,988	2.8	23,307	7.9
Finance income, net	1,524	0.4	401	0.1	741	0.2	183	0.1	570	0.2
Profit before income tax	50,532	13.3	44,792	11.1	41,726	9.1	5,171	2.9	23,877	8.1
Income tax (expense)/credit	(4,852)	(1.3)	(4,066)	1.0	(2,336)	(0.5)	1,858	1.0	(3,551)	(1.2)
Profit and total comprehensive income for the year/period, net of tax	45,680	12.1	40,726	10.1	39,390	8.6	7,029	3.9	20,326	6.9

* Less than 0.1%

NON-HKFRSs MEASURE

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, we recognized the fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses as non-recurring items in relation to the [REDACTED].

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To supplement our consolidated financial statements which are presented in accordance with HKFRSs, we set forth in the table below the adjusted net profit of our Group for the periods indicated after adjusting for the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses as a non-HKFRSs measure:

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit and total comprehensive income, net of tax	45,680	40,726	39,390	7,029	20,326
Add:					
Net fair value changes on the Pre-[REDACTED] Convertible Bonds ⁽¹⁾	—	—	1,479	—	1,314
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Adjusted net profit (unaudited) (non-HKFRSs measure)⁽²⁾⁽³⁾	49,878	45,496	56,726	20,287	27,333

Notes:

1. We define net fair value changes on the Pre-[REDACTED] Convertible Bonds by netting off the fair value loss on the Pre-[REDACTED] Convertible Bonds measured at fair value through profit or loss by the fair value gain on extension of the Pre-[REDACTED] Convertible Bonds measured at fair value through profit or loss.
2. We define adjusted net profit as profit and total comprehensive income, net of tax, for the period adjusted by adding back the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses. We eliminate the potential impacts of such items that our management does not consider to be indicative of our operating performance, as they are one-off expenses in relation to the [REDACTED]. In particular, the net fair value changes on the Pre-[REDACTED] Convertible Bonds and the [REDACTED] expenses will not recur after the [REDACTED]. Therefore, the adjustment complies with guidance letter HKEx-GL103-19 issued by the Stock Exchange.
3. We believe that the presentation of such non-HKFRSs measure when shown in conjunction with the corresponding HKFRSs measures provides useful information to potential investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of the net fair value changes on the Pre-[REDACTED] Convertible Bonds and [REDACTED] expenses, which do not reflect our ongoing operating performance. The use of the non-HKFRSs measure has limitations as any analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to, the analysis of our results of operations or financial condition as reported under the HKFRSs. In addition, the non-HKFRSs measure may be defined differently from similar terms used by other companies.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue was primarily generated from the sales of in-game virtual items. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our total revenue generated amounted to approximately RMB378.6 million, RMB404.7 million, RMB459.9 million and RMB294.8 million, respectively.

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Revenue by games

The following table sets forth a breakdown of revenue by our games in absolute amounts and as percentages to our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>Football Master (足球大師)</i>	174,693	46.2	145,369	35.9	134,988	29.4	67,546	37.3	55,264	18.7
<i>NBA Basketball Master (NBA 籃球大師)</i>	195,905	51.7	216,479	53.5	176,693	38.4	80,703	44.6	83,715	28.4
<i>Football Champion (最佳11人 — 冠軍球會)</i>	68	*	41,368	10.2	148,170	32.2	32,725	18.1	155,796	52.9
<i>Chinese Super League (冠軍中超OL)</i>	7,205	1.9	857	0.2	—	—	—	—	—	—
<i>Idol Love Story (戀愛吧! 偶像)</i>	759	0.2	672	0.2	—	—	—	—	—	—
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

* Less than 0.1%

During the Track Record Period, the majority of our revenue were generated from our existing games, i.e. *Football Master (足球大師)*, *NBA Basketball Master (NBA 籃球大師)* and *Football Champion (最佳11人 — 冠軍球會)*, which contributed to approximately RMB370.7 million, RMB403.2 million, RMB459.9 million and RMB294.8 million, representing 97.9%, 99.6%, 100.0% and 100.0% of our total revenue, respectively. Although *Football Champion (最佳11人 — 冠軍球會)* was officially launched in April 2020, we generated minimal revenue for *Football Champion (最佳11人 — 冠軍球會)* in 2019 from public testing.

Revenue by publishing models

The following table sets forth a breakdown of revenue by publishing models in absolute amounts and as percentages to our total revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-publishing games	360,360	95.2	395,024	97.6	452,672	98.4	176,928	97.8	292,106	99.1
Third party publishing games	18,270	4.8	9,721	2.4	7,179	1.6	4,046	2.2	2,669	0.9
Total	378,630	100.0	404,745	100.0	459,851	100.0	180,974	100.0	294,775	100.0

FINANCIAL INFORMATION

During the Track Record Period, our games were primarily published and downloaded from third-party distribution platforms. We publish our games through (i) various third-party distribution platforms including application marketplaces such as Huawei, Xiaomi, OPPO, Vivo, Tencent Appstore, Google Play, TapTap and Apple AppStore for users to download our games; (ii) our official website where we place QR codes for visitors to download and install our games; and (iii) commissioning third-party advertising and marketing agencies to publicize our games with links which would be directed to the official website of our games or various third-party distribution platforms. For games published by third-party publishers, we grant them rights to publish our games on the designated distribution platforms as an agent and share revenue on a pre-determined rate.

Cost of revenue

Our cost of revenue primarily consists of (i) commission fee to the Platforms; (ii) license fees which include our amortisation charges on royalty fees to our IP right holders; (iii) revenue sharing to third-party publishers; (iv) staff costs for daily operation and (v) server usage expenses. During the Track Record Period, our cost of revenue amounted to approximately RMB207.5 million, RMB224.4 million, RMB238.3 million and RMB145.9 million, accounting for approximately 54.8%, 55.4%, 51.8% and 49.5% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our cost of revenue in absolute amounts and as percentages to our total cost of revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Commission fee to the Platforms	142,939	68.9	157,331	70.1	168,098	70.5	69,185	70.4	102,290	70.1
License fees	40,118	19.3	47,711	21.3	47,739	20.0	19,194	19.5	29,813	20.4
Revenue sharing to third-party publishers	14,764	7.1	8,129	3.6	5,682	2.4	3,215	3.3	2,244	1.5
Staff costs	5,287	2.5	5,920	2.6	8,503	3.6	3,620	3.7	5,782	4.0
Server usage expenses	3,757	1.8	4,638	2.1	7,434	3.1	2,830	2.9	5,121	3.5
Others*	664	0.4	625	0.3	868	0.4	288	0.2	660	0.5
Total cost of revenue	207,529	100.0	224,354	100.0	238,324	100.0	98,332	100.0	145,910	100.0

* Others mainly consist of depreciation of property, plant and equipment and depreciation of right-of-use assets.

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FINANCIAL INFORMATION

The following table sets forth a breakdown of our cost of revenue by games in absolute amounts and as percentages to our total costs of revenue for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>Football Master (足球大師)</i>	93,394	45.0	83,447	37.2	74,284	31.2	37,508	38.1	31,572	21.6
<i>NBA Basketball Master (NBA籃球大師)</i>	102,698	49.5	115,643	51.5	92,952	39.0	42,264	43.0	44,795	30.7
<i>Football Champion (最佳11人 — 冠軍球會)</i>	977	0.5	18,019	8.0	61,647	25.9	14,652	14.9	63,102	43.2
<i>Chinese Super League (冠軍中超OL)</i>	3,899	1.9	226	0.1	—	—	—	—	—	—
<i>Idol Love Story (戀愛吧! 偶像)</i>	610	0.3	475	0.2	—	—	—	—	—	—
Others*	5,951	2.8	6,544	3.0	9,441	3.9	3,908	4.0	6,441	4.5
Total cost of revenue	207,529	100.0	224,354	100.0	238,324	100.0	98,332	100.0	145,910	100.0

* Others mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

Gross profit

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our total gross profit amounted to approximately RMB171.1 million, RMB180.4 million, RMB221.5 million and RMB148.9 million, respectively, representing a gross profit margin of approximately 45.2%, 44.6%, 48.2% and 50.5%, respectively.

The following table sets forth a breakdown of our gross profit and gross profit margin by our games for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>Football Master (足球大師)</i>	81,299	46.5	61,922	42.6	60,704	45.0	30,038	44.5	23,692	42.9
<i>NBA Basketball Master (NBA籃球大師)</i>	93,207	47.6	100,836	46.6	83,741	47.4	38,439	47.6	38,920	46.5
<i>Football Champion (最佳11人 — 冠軍球會)</i>	(909)	—	23,349	56.4	86,523	58.4	18,073	55.2	92,694	59.5
<i>Chinese Super League (冠軍中超OL)</i>	3,306	45.9	631	73.6	—	—	—	—	—	—
<i>Idol Love Story (戀愛吧! 偶像)</i>	149	19.6	197	29.3	—	—	—	—	—	—
Others*	(5,951)	—	(6,544)	—	(9,441)	—	(3,908)	—	(6,441)	—
Total	171,101	45.2	180,391	44.6	221,527	48.2	82,642	45.7	148,865	50.5

* Others refer to cost of revenue unallocated to different games, mainly consist of staff costs, depreciation of property, plant and equipment and depreciation of right-of-use assets.

FINANCIAL INFORMATION

Other gains/(losses), net

Our other net gains/(losses) primarily consist of (i) fair value gains on financial assets measured at fair value through profit or loss; (ii) fair value gain on extension of a financial liability measured at fair value through profit or loss; (iii) fair value loss on a financial liability measured at fair value through profit or loss; (iv) loss on disposal of property, plant and equipment; and (v) net exchange gain or loss. The following table sets forth a breakdown of our other net gains/(losses) in absolute amounts and as percentages to our total other net gains/(losses) for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Fair value gains on financial assets measured at fair value through profit or loss	526	78.6	334	(6.8)	485	(42.7)	211	28.8	45	4.4
Fair value gain on extension of a financial liability measured at fair value through profit or loss	—	—	—	—	—	—	—	—	3,065	296.4
Fair value loss on a financial liability measured at fair value through profit or loss	—	—	—	—	(1,479)	130.1	—	—	(4,379)	(423.5)
Loss on disposal of property, plant and equipment	—	—	(7)	0.1	(748)	65.8	(26)	(3.6)	—	—
Exchange gain/(loss), net	143	21.4	(5,187)	105.8	145	(12.8)	151	20.6	2,245	217.1
Others	—	—	(43)	0.9	460	(40.4)	397	54.2	58	5.6
Total	669	100.0	(4,903)	100.0	(1,137)	100.0	733	100.0	1,034	100.0

Our fair value gains on financial assets measured at fair value through profit or loss represents the change in fair value of our investments in the wealth management products. The fair value gain on extension of a financial liability measured at fair value through profit or loss was resulted from the extension of the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023 pursuant to the supplemental deed executed between our Company and Garena Ventures on May 31, 2022, with other material terms and conditions remain unchanged. Our fair value loss on a financial liability measured at fair value through profit or loss represents the fair value loss on the Pre-[REDACTED] Convertible Bonds recognized in profit or loss. Our net exchange gain or loss represents exchange difference resulting from translation of our foreign currency transactions into our functional currency, RMB, at the prevailing exchange rate.

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Other income

During the Track Record Period, our other income amounted to approximately RMB1.0 million, RMB1.9 million, RMB3.3 million and RMB3.6 million, accounting for approximately 0.3%, 0.5%, 0.7% and 1.2% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our other income in absolute amounts and as percentages to our total other income for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Government grants	763	79.3	1,593	82.5	2,978	89.7	1,184	87.4	2,706	75.3
Others*	199	20.7	338	17.5	341	10.3	170	12.6	888	24.7
Total	962	100.0	1,931	100.0	3,319	100.0	1,354	100.0	3,594	100.0

* Others mainly consist of VAT reduction entitled by our Group under a special policy for production and living services for tax-paying entities announced by the relevant PRC authority in 2019 and advertising income.

Our other income primarily consists of grants and subsidies for technological innovation received from the local government. As of the Latest Practicable Date, there are no unfulfilled conditions or other contingencies attaching to these grants and subsidies.

Selling and marketing expenses

During the Track Record Period, our selling and marketing expenses amounted to approximately RMB60.3 million, RMB62.9 million, RMB85.6 million and RMB73.4 million, accounting for approximately 15.9%, 15.5%, 18.6% and 24.9% of our total revenue for the corresponding years, respectively. The following table sets forth a breakdown of our selling and marketing expenses in absolute amounts and as percentages to our total selling and marketing expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Advertising and marketing expenses	54,468	90.4	56,309	89.5	76,451	89.3	28,325	88.5	67,742	92.3
Employee benefits and salaries	5,074	8.4	5,832	9.3	7,795	9.1	3,318	10.4	4,785	6.5
Data analyzing service fees	267	0.4	199	0.3	499	0.6	60	0.2	314	0.4
Others*	469	0.8	549	0.9	845	1.0	289	0.9	604	0.8
Total	60,278	100.0	62,889	100.0	85,590	100.0	31,992	100.0	73,445	100.0

* Others mainly consist of rental expenses attributable to our sales and marketing staff, depreciation of property, plant and equipment and depreciation of right-of-use assets.

FINANCIAL INFORMATION

Our selling and marketing expenses primarily comprised (i) advertising and marketing expenses, which mainly consisted of our fees payable to third-party advertising and marketing agents for online advertising services and our brand ambassadors; (ii) employee benefits and salaries for our sales and marketing staff; and (iii) data analyzing service fees, which consisted of fees payable to third-party service providers for the provision of market data analysis to evaluate the efficiency of our marketing efforts.

General and administrative expenses

During the Track Record Period, our general and administrative expenses amounted to approximately RMB23.2 million, RMB21.1 million, RMB34.6 million and RMB17.5 million, accounting for approximately 6.1%, 5.2%, 7.5% and 5.9% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our general and administrative expenses in absolute amounts and as percentages to our total general and administrative expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Employee benefits and salaries	8,413	36.2	9,955	47.1	10,640	30.8	5,011	22.7	6,011	34.4
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Tax and levies	1,712	7.4	2,061	9.8	2,383	6.9	916	4.2	1,708	9.8
Offices expenses	675	2.9	977	4.6	1,081	3.1	478	2.2	613	3.5
Other professional service fees and auditors' remunerations	1,567	6.7	777	3.7	1,900	5.5	1,162	5.3	1,448	8.3
Depreciation of right-of-use assets	225	1.0	245	1.2	346	1.0	106	0.5	226	1.3
Travelling expenses	468	2.0	196	0.9	212	0.6	83	0.4	28	0.2
Amortisation of intangible assets	3,328	14.3	153	0.7	158	0.5	78	0.4	132	0.8
Depreciation of property, plant and equipment	119	0.5	147	0.7	161	0.5	73	0.3	80	0.5
Royalty fees	748	3.2	—	—	—	—	—	—	209	1.2
Others*	1,772	7.7	1,838	8.7	1,851	5.3	897	3.9	1,313	7.4
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

* Others mainly consist of telecommunication fee, recruitment fee, utilities expenses, building management fee and rental expenses.

Our general and administrative expenses primarily comprised of (i) employee benefits and salaries for our general and administrative staff; (ii) [REDACTED] expenses; (iii) tax and levies, mainly consisting of value-added tax adjustments and other related taxes in the PRC; (iv) office expenses; (v) other professional service fees and auditors' remunerations; (vi) depreciation of right-of-use assets; (vii) travelling expenses; (viii) amortisation of intangible assets; (ix) depreciation of property, plant and equipment; and (x) royalty fees representing license fees payable to IP right holders for games yet to be launched.

FINANCIAL INFORMATION

Research and development expenses

During the Track Record Period, our research and development expenses amounted to approximately RMB40.1 million, RMB45.2 million, RMB62.7 million and RMB37.5 million, accounting for approximately 10.6%, 11.2%, 13.6% and 12.7% of our total revenue for the corresponding periods, respectively. The following table sets forth a breakdown of our research and development expenses in absolute amounts and as percentages to our total research and development expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefits and salaries	35,774	89.2	40,789	90.2	55,552	88.6	23,528	91.6	32,580	86.9
Depreciation of right-of-use assets	1,609	4.0	1,777	3.9	2,594	4.1	781	3.0	1,972	5.3
Depreciation of property, plant and equipment	851	2.1	1,067	2.4	1,211	1.9	539	2.1	699	1.9
Graphic design expenses and dubbing fee	1,319	3.3	849	1.9	2,383	3.8	596	2.3	1,791	4.8
Others*	539	1.4	750	1.6	965	1.6	245	1.0	466	1.1
Total	40,092	100.0	45,232	100.0	62,705	100.0	25,689	100.0	37,508	100.0

* Others mainly consist of utilities and office expenses and rental expenses for research and development purposes.

Our research and development expenses primarily comprised (i) employee benefits and salaries for our research and development staff; (ii) depreciation of right-of-use assets (iii) depreciation of property, plant and equipment; and (iv) graphic design expenses and dubbing fee which included expenses payable to outsourced service providers for such services.

Net impairment losses/reversal of impairment loss on financial assets

Impairment losses on financial assets are recognized due to estimated impairment losses on trade receivables. When a receivable is considered uncollectible, it is written off against the allowance for receivables while subsequent recovery of amount previously written off are credited as reversal of impairment. For the years ended December 31, 2019 and 2020 and the six months ended June 30, 2022, we had net impairment losses on financial assets of approximately RMB0.1 million, RMB3.8 million and RMB1.8 million, respectively. We recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million for the year ended December 31, 2021.

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Finance income, net

During the Track Record Period, our net finance income amounted to approximately RMB1.5 million, RMB0.4 million, RMB0.7 million and RMB0.6 million, respectively. Our interest income mainly represents interests arising from our bank deposits and our interest expenses mainly represents interests arising from our lease liabilities. We also recorded interest income/expenses from interest accretion on licence fee and royalties payables. The following table sets forth a breakdown of our net finance income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Interest income					
— Bank deposits	1,221	1,013	1,478	562	1,067
— Interest accretion	498	—	—	—	—
	<u>1,719</u>	<u>1,013</u>	<u>1,478</u>	<u>562</u>	<u>1,067</u>
Interest expenses					
— Lease liabilities	(195)	(172)	(437)	(79)	(349)
— Interest accretion	—	(440)	(300)	(300)	(148)
	<u>(195)</u>	<u>(612)</u>	<u>(737)</u>	<u>(379)</u>	<u>(497)</u>
Total	<u><u>1,524</u></u>	<u><u>401</u></u>	<u><u>741</u></u>	<u><u>183</u></u>	<u><u>570</u></u>

Income tax expense/(credit)

The following table sets forth a breakdown of our income tax expense/(credit) for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Current tax	4,593	3,370	820	—	4,470
Deferred income tax	259	696	1,516	(1,858)	(919)
	<u>4,852</u>	<u>4,066</u>	<u>2,336</u>	<u>(1,858)</u>	<u>3,551</u>

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Taxation in Cayman Islands and BVI

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly is exempt from income tax in the Cayman Islands. Also, our Group entities established under the International Business Companies Acts of BVI are exempted from BVI income taxes.

Taxation in Hong Kong

Hong Kong profits tax is calculated at rate of 16.5% on the assessable profits. No Hong Kong profits tax was provided for as there were sufficient available accumulated tax losses brought forward to offset against the estimated assessable profit for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022.

Taxation in the PRC

Under the prevailing PRC Corporate Income Tax Law during the Track Record Period, our PRC subsidiaries and PRC Operating Entities are subject to the statutory rate of 25%, with preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy.

Enterprises that qualify as “High and New Technology Enterprises” (“HNTTE”) are entitled to a preferential CIT rate of 15%. Wangchen Technology has obtained its qualification as a HNTTE in December 2019 and was entitled to the preferential CIT rate of 15% for the years ended December 31, 2019 and 2020. Wangchen Technology was subject to CIT rate of 25% for the year ended December 31, 2021 and the six months ended June 30 2022.

Enterprises located in Qianhai Shenzhen-Hong Kong Cooperation Zone, of which the major business falls within those set out in the Index of CIT of Qianhai Shenzhen-Hong Kong Cooperation Zone (2021) and the revenue from such major business accounts for over 60% of the total revenue, are entitled to a preferential CIT rate of 15%. The WFOE has fulfilled the requirement of the “Preferential Corporate Income Tax Treatment for Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone” and it was subject to a reduced preferential CIT tax rate of 15% for the year ended December 31, 2021 and the six months ended June 30 2022.

Since 2018, enterprises engaging in research and development activities are also entitled, under the relevant laws and regulations promulgated by the PRC State Administration of Taxation, to claim up to 175% of their qualified research and development expenses incurred as tax deductible expenses when determining assessable profits for the year. During the Track Record Period, our Group has made best estimation for such deduction for our PRC Operating Entities in ascertaining our assessable profits.

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Pursuant to the applicable PRC tax regulations, a 10% withholding tax is levied on dividends due to profits derived after January 1, 2008 and distributed to foreign investors from the enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For our Group, the applicable rate is 10% and may be reduced to 5% if certain criteria could be met under the Double Taxation Arrangement between the PRC and Hong Kong. Our Group is therefore liable for withholding taxes on dividends distributed by our PRC subsidiaries to foreign investors in respect of profit derived from January 1, 2008.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our income tax expense was approximately RMB4.9 million, RMB4.1 million, RMB2.3 million and RMB3.6 million, respectively. Our effective tax rate was approximately 9.6%, 9.1%, 5.6% and 14.9% for the same periods, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2022 compared to six months ended June 30, 2021

Revenue

Our revenue increased by approximately RMB113.8 million, or 62.9%, from approximately RMB181.0 million for the six months ended June 30, 2021 to approximately RMB294.8 million for the six months ended June 30, 2022, which was mainly attributable to the increase in revenue generated from *Football Champion (最佳11人 — 冠軍球會)* by approximately RMB123.1 million or 376.5%, from approximately RMB32.7 million for the six months ended June 30, 2021 to approximately RMB155.8 million for the six months ended June 30, 2022 as our Group has been expanding *Football Champion (最佳11人 — 冠軍球會)* to overseas markets, such as Hong Kong, South Korea, Vietnam and Japan since the second half of 2021 which significantly boosted the total registered users, average DAUs, average MAUs, average MPUs and ARPPU during the period. Further details of the operating data of *Football Champion (最佳11人 — 冠軍球會)* during the Track Record Period, please see the section headed “Business — Our Game Portfolio — Existing game portfolio” of this document. During the six months ended June 30, 2022, the revenue generated from *NBA Basketball Master (NBA籃球大師)* also experienced a slight increase by approximately RMB3.0 million or 3.7% to approximately RMB83.7 million from approximately RMB80.7 million for the corresponding period in 2021. Such contributions to the increase in our revenue were partially offset by the decrease in revenue generated from *Football Master (足球大師)* by approximately RMB12.2 million, or 18.1% from approximately RMB67.5 million for the six months ended June 30, 2021 to approximately RMB55.3 million for the six months ended June 30, 2022 as our Group devoted less advertising and marketing expenses on retaining the inactive and less loyal users with low paying propensity and purchasing capability of the game at the later period of stable and mature stage of the game’s lifecycle. Despite the decrease in revenue generated from the game, the ARPPU of *Football Master (足球大師)* maintained its continuous growth to RMB1,442 during the six months ended June 30, 2022 when compared with that of RMB1,371 in 2021.

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Cost of revenue

Our costs of revenue increased by approximately RMB47.6 million, or 48.4%, from approximately RMB98.3 million for the six months ended June 30, 2021 to approximately RMB145.9 million for the six months ended June 30, 2022. The increase in cost of revenue was primarily attributable to (i) the increase of approximately RMB33.1 million, or 47.8% of our commission fee payable to the Platforms which was in line with our growth in revenue, primarily attributable to the introduction of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, South Korea, Vietnam and Japan since the second half of 2021 which significantly stimulated the average MPUs and ARPPU of the game for the six months ended June 30, 2022; (ii) the increase by approximately RMB10.6 million, or 55.3% of our license fees which was in line with our growth in revenue as some of our IP licensing arrangements provide for revenue sharing from our income generated; (iii) the increase by approximately RMB2.2 million, or 59.7% of our staff costs, mainly due to the increase in our number of staff in maintenance, operation and customer service departments during the six months ended June 30, 2022; and (iv) the increase by approximately RMB2.3 million, or 81.0% of our server usage expenses which was primarily attributable to the expansion of our cloud server service capacity to support the expected surge in demand for server usage following the introduction of our existing games and new games in the pipeline in the PRC and overseas markets. The increase was partially offset by the decrease in revenue sharing to third party publishers by approximately RMB1.0 million or 30.2% due to our less collaboration with the third party publishers during the six months ended June 30, 2022.

Gross profit and gross profit margin

For the reasons mentioned above, our gross profit increased by approximately RMB66.3 million, or 80.3%, from approximately RMB82.6 million for the six months ended June 30, 2021 to approximately RMB148.9 million for the six months ended June 30, 2022. Our gross profit margin increased from approximately 45.7% for the six months ended June 30, 2021 to approximately 50.5% for the six months ended June 30, 2022. The increase in gross profit margin was primarily due to our successful expansion into the overseas markets, in particular the introduction of *Football Champion* (最佳11人 — 冠軍球會) in Hong Kong, South Korea, Vietnam and Japan since the second half of 2021. Coupled with the increase in our proportion of income generated from the overseas markets and the comparatively lower commission rate charged by overseas distribution platforms than the local distribution platforms in the PRC, our growth of commission fee to the Platforms was relatively lower than the growth of revenue for the six months ended June 30, 2022, contributing to the improvement of our gross profit margin.

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Other gains/(losses), net

Our other net gains increased by approximately RMB0.3 million, or 42.9%, from approximately RMB0.7 million for the six months ended June 30, 2021 to approximately RMB1.0 million for the six months ended June 30, 2022, mainly because we recorded an increase in net exchange gain by approximately RMB2.1 million for the six months ended June 30, 2022 as compared with the corresponding period in 2021, partially offset by a net fair value loss on the Pre-[REDACTED] Convertible Bonds of approximately RMB1.3 million (calculated based on netting off the fair value loss on the Pre-[REDACTED] Convertible Bonds measured at fair value through profit or loss by the fair value gain on extension of the Pre-[REDACTED] Convertible Bonds measured at fair value through profit or loss, resulting from the extension of the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023 pursuant to the supplemental deed executed between our Company and Garena Ventures on May 31, 2022).

Other income

Our other income increased by approximately RMB2.2 million, or 157.1%, from approximately RMB1.4 million for the six months ended June 30, 2021 to approximately RMB3.6 million for the six months ended June 30, 2022, mainly because (i) we received certain new grants and/or subsidies from the local governmental departments such as a grant of approximately RMB1.5 million from the Shenzhen municipal government to award enterprises with qualified research and development capabilities; and (ii) we received approximately RMB0.4 million from advertising income for the six months ended June 30, 2022.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB41.4 million, or 129.4%, from approximately RMB32.0 million for the six months ended June 30, 2021 to approximately RMB73.4 million for the six months ended June 30, 2022, which was primarily attributable to (i) the increase in advertising and marketing expenses of approximately RMB39.4 million, or 139.2% as we carried out massive online advertising activities during the six months ended June 30, 2022 for promoting our Football Champion (最佳11人 — 冠軍球會) in the overseas markets such as Hong Kong, South Korea, Vietnam and Japan; and (ii) the increase in employee benefits and salaries of our selling and marketing staff of approximately RMB1.5 million or 44.2% following the expansion of our sales and marketing team from 34 staff for the six months ended June 30, 2021 to 46 staff for the six months ended June 30, 2022.

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General and administrative expenses

Our general and administrative expenses decreased by approximately RMB4.6 million, or 20.8%, from approximately RMB22.1 million for the six months ended June 30, 2021 to approximately RMB17.5 million for the six months ended June 30, 2022, which was primarily attributable to the decrease in [REDACTED] expenses of approximately RMB7.6 million, or 57.1%, partially offset by (i) the increase in employee benefits and salaries of our general and administrative staff by approximately RMB1.0 million, or 20.0%, mainly attributable to the increase in relevant staff bonus declared during the period; and (ii) the increase in tax and levies of approximately RMB0.8 million, or 86.5%, mainly due to the increase of the withholding tax incurred for the royalty fees payable to the relevant IP right holders, resulting from the increase in revenue for the six months ended June 30, 2022.

Research and development expenses

Our research and development expenses increased by approximately RMB11.8 million, or 45.9%, from approximately RMB25.7 million for the six months ended June 30, 2021 to approximately RMB37.5 million for the six months ended June 30, 2022, which was primarily attributable to (i) the increase in employee benefits and salaries of our research and development staff of approximately RMB9.1 million, or 38.5% primarily due to the increase in the number of our research and development staff from 163 for the six months ended June 30, 2021 to 203 for the six months ended June 30, 2022 for the development of our new mobile sports games in the pipeline and the salary increment offered by us to reward our talented research and development personnel; (ii) the increase in depreciation of right-of-use assets of approximately RMB1.2 million, or 152.5% as we signed a new lease agreement during the six months ended June 30, 2022; and (iii) the increase in graphic design expenses and dubbing fee of approximately RMB1.2 million, or 200.5% to support the development of our new mobile sports games.

Reversal of impairment loss/Net impairment losses on financial assets

We recorded a reversal of impairment loss on financial assets of approximately RMB2,000 for the six months ended June 30, 2021, while we recorded net impairment losses on financial assets of approximately RMB1.8 million for the six months ended June 30, 2022 because we made provision for impairment of trade receivables regarding an overdue amount by one of our payment vendors of approximately RMB1.8 million during the period. We have taken measures to recover the outstanding amount by serving payment demand request on the payment vendor and our finance team closely monitored the collectability of this payment and will continue to communicate with the payment vendor to obtain updates of its anticipated settlement.

Finance income, net

Our net finance income increased by approximately RMB0.4 million, or 200.0%, from approximately RMB0.2 million for the six months ended June 30, 2021 to approximately RMB0.6 million for the six months ended June 30, 2022, which was primarily attributable to the increase in interest income from bank deposits of approximately RMB0.5 million, or 89.9%.

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Profit before income tax expense

Our profit before income tax expense increased by approximately RMB18.7 million, or 359.6%, from approximately RMB5.2 million for the six months ended June 30, 2021 to approximately RMB23.9 million for the six months ended June 30, 2022, which was primarily due to the cumulative effect of (i) the significant increase in our gross profit by approximately RMB66.3 million, mainly attributable to the successful expansion of our *Football Champion (最佳11人 — 冠軍球會)* into other overseas markets; and (ii) the decrease in our general and administrative expenses by approximately RMB4.6 million mainly due to the decrease in our [REDACTED] expenses, partially offset by the increase of our selling and marketing expenses by approximately RMB41.4 million mainly attributable to our increased advertising and marketing expenses to promote *Football Champion (最佳11人 — 冠軍球會)* in overseas markets and the increase in our research and development expenses by approximately RMB11.8 million primarily due to our efforts to strengthen our research and development capabilities during the six months ended June 30, 2022.

Income tax expense/credit

We recorded income tax credit of approximately RMB1.9 million for the six months ended June 30, 2021 as a result of an one-off increase in deferred tax assets, arising from the change of CIT rate applicable to Wangchen Technology from 15% in 2020 to 25% in 2021. As WFOE has undertaken the key functional activities related to the game design and development from Wangchen Technology since July 1, 2021 upon the implementation of the Contractual Arrangements, Wangchen Technology is no longer subject to a reduced preferential CIT rate of 15%. For the six months ended June 30, 2022, we recorded income tax expense of approximately RMB3.6 million mainly due to the increase in profit before income tax by approximately RMB18.7 million, or 359.6% for the six months ended June 30, 2022 as compared with the corresponding period in 2021.

Profit for the period

For the reasons above, our profit for the period increased by approximately RMB13.3 million, or 190.0%, from approximately RMB7.0 million for the six months ended June 30, 2021 to approximately RMB20.3 million for the six months ended June 30, 2022, primarily due to the increase in profit before income tax as mentioned above.

Year ended December 31, 2021 compared to Year ended December 31, 2020

Revenue

Our revenue increased by approximately RMB55.2 million, or 13.6%, from approximately RMB404.7 million for the year ended December 31, 2020 to approximately RMB459.9 million for the year ended December 31, 2021, which was mainly attributable to the increase in revenue generated from *Football Champion (最佳11人 — 冠軍球會)* by approximately RMB106.8 million, or 258.0%, from approximately RMB41.4 million for the year ended December 31, 2020 to approximately RMB148.2 million for the year ended December 31, 2021 as (i) *Football Champion (最佳11人 — 冠軍球會)* being a game at the early growth stage of its lifecycle after its launch in April 2020,

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experienced rapid growth in its total registered users, average DAUs, average MAUs, average MPUs and ARPPU from 2020 to 2021; and (ii) our Group has been expanding *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, South Korea and Vietnam during August and September 2021. Further details of the operating data of *Football Champion* (最佳11人 — 冠軍球會) during the Track Record Period, please see the section headed “Business — Our Game Portfolio — Existing game portfolio” of this document. Such increase in revenue was partially offset by (i) the decrease of revenue generated from *NBA Basketball Master* (NBA 籃球大師) by approximately RMB39.8 million, or 18.4% from approximately RMB216.5 million for the year ended December 31, 2020 to approximately RMB176.7 million for the year ended December 31, 2021 as our Group had allocated more resources on the preparation and launching of various foreign language versions of *Football Champion* (最佳11人 — 冠軍球會) as well as planning our new mobile sports games in the pipeline during the year of 2021, thus diverting our management attention and resources on devising more monetization strategies to convert more non-paying users of *NBA Basketball Master* (NBA 籃球大師) into paying users. In addition, as our Group will continuously optimize user experience, certain new gameplay introduced to the game during the first half of the year gradually realized its intended payoff during the second half of the year of 2021; and (ii) the decrease of revenue generated from *Football Master* (足球大師) by approximately RMB10.4 million, or 7.2% from approximately RMB145.4 million for the year ended December 31, 2020 to approximately RMB135.0 million for the year ended December 31, 2021 as our Group intended to incur less advertising and marketing expenses on the game to retain the inactive and less loyal users with low paying propensity and purchasing capability at the later period of stable and mature stage of its lifecycle.

Cost of revenue

Our cost of revenue increased by approximately RMB13.9 million, or 6.2%, from approximately RMB224.4 million for the year ended December 31, 2020 to approximately RMB238.3 million for the year ended December 31, 2021. The increase in cost of revenue was primarily attributable to (i) an increase of approximately RMB10.8 million, or 6.8% of our commission fee payable to the Platforms which was in line with our growth of revenue, primarily attributable to the introduction of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, South Korea and Vietnam which significantly stimulated the average MPUs and ARPPU of the game during 2021; (ii) the increase by approximately RMB2.8 million, or 60.3%, of our server usage expenses which was mainly attributable to the expansion of our cloud server service capacity in order to cope with our overseas market expansion plan to support the expected surge in demand for server usage following the introduction of our existing games and new games in the pipeline in the overseas markets; and (iii) the increase by approximately RMB2.6 million, or 43.6% of our staff costs, mainly due to the increase in our number of staff in maintenance, operation and customer service departments in 2021. The increase was partially offset by the decrease in revenue sharing to third party publisher by approximately RMB2.4 million or 30.1% due to our less collaboration with the third party publishers in 2021.

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Gross profit and gross profit margin

For the reasons mentioned above, our gross profit increased by approximately RMB41.1 million, or 22.8%, from approximately RMB180.4 million for the year ended December 31, 2020 to approximately RMB221.5 million for the year ended December 31, 2021. Our gross profit margin increased from approximately 44.6% for the year ended December 31, 2020 to 48.2% for the year ended December 31, 2021. The increase in gross profit margin was primarily due to our successful expansion into the overseas markets during the year ended December 31, 2021. Coupled with the increase in our proportion of income generated from the overseas markets for the year ended December 31, 2021 and the comparatively lower commission rate charged by overseas distribution platforms than the local distribution platforms in the PRC, our growth of commission fee to the Platforms was relatively lower than the growth of revenue for the year ended December 31, 2021.

Other gains/(losses), net

Our other net losses decreased by approximately RMB3.8 million from approximately RMB4.9 million for the year ended December 31, 2020 to approximately RMB1.1 million for the year ended December 31, 2021 mainly due to that we recorded a net exchange gain of approximately RMB0.1 million in 2021 as compared with a net exchange loss of approximately RMB5.2 million in 2020. During the year ended December 31, 2021, we recorded a fair value loss on a financial liability measured at fair value through profit or loss by approximately RMB1.5 million, resulting from the fair value loss of the Pre-[REDACTED] Convertible Bonds.

Other income

Our other income increased by approximately RMB1.4 million, or 73.7%, from approximately RMB1.9 million for the year ended December 31, 2020 to approximately RMB3.3 million for the year ended December 31, 2021, mainly because we received certain new grants and/or subsidies from the local governmental departments such as a grant of RMB0.8 million from the Ministry of Industry and Information Technology to support enterprises to enhance service or product quality and brand awareness and a subsidy of approximately RMB0.8 million from Shenzhen Science and Technology Committee to support the research and development activities of high-tech and innovation companies in Shenzhen.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB22.7 million, or 36.1%, from approximately RMB62.9 million for the year ended December 31, 2020 to approximately RMB85.6 million for the year ended December 31, 2021, which was primarily attributable to (i) the increase of advertising and marketing expenses of approximately RMB20.1 million, or 35.8% due to the additional marketing efforts exerted, such as (i) we engaged a game ambassador after the Vietnamese version of *Football Champion* (最佳11人 — 冠軍球會) was launched in August 2021; and (ii) we carried out massive online advertising activities in the second half of 2021 for the launch of foreign language versions of *Football Champion* (最佳11人 — 冠軍球會) in Hong Kong, Vietnam

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and South Korea during August and September 2021; and (ii) the increase of employee benefits and salaries of approximately RMB2.0 million, or 33.7%, following the expansion of our selling and marketing team from 33 staff for the year ended December 31, 2020 to 41 staff for the year ended December 31, 2021.

General and administrative expenses

Our general and administrative expenses increased by approximately RMB13.5 million, or 64.0%, from approximately RMB21.1 million for the year ended December 31, 2020 to approximately RMB34.6 million for the year ended December 31, 2021. The increase was primarily attributable to (i) the increase of [REDACTED] expenses of approximately RMB[REDACTED], or [REDACTED]% for the preparation of the [REDACTED]; and (ii) the increase of other professional service fees and auditors’ remunerations of approximately RMB1.1 million, or 144.5%.

Research and development expenses

Our research and development expenses increased by approximately RMB17.5 million, or 38.7%, from RMB45.2 million for the year ended December 31, 2020 to approximately RMB62.7 million for the year ended December 31, 2021. The increase was primarily attributable to (i) the increase of employee benefits and salaries of approximately RMB14.8 million, or 36.2% due to the increase in number of research and development staff from 169 for the year ended December 31, 2020 to 186 for the year ended December 31, 2021 and the increase in the average salary of our research and development staff to maintain our research and development capabilities; (ii) the increase of graphic design expense and dubbing fee of approximately RMB1.5 million, or approximately 180.7% to support the development of our new mobile sports games; and (iii) the increase of our depreciation of right-of-use assets by approximately RMB0.8 million or 46.0% as we signed a new lease agreement for our new office in Qianhai during 2021.

Reversal of impairment loss/Net impairment losses on financial assets

We recorded a reversal of impairment loss on financial assets of approximately RMB0.2 million for the year ended December 31, 2021 as compared to the net impairment losses of approximately RMB3.8 million for the year ended December 31, 2020, primarily because we made provision for impairment of the overdue amount by one of our historical major suppliers during the year ended December 31, 2020, but there was no such provision made for the year ended December 31, 2021. Further details of the overdue amount by one of our historical major suppliers are set out in the paragraphs headed “Period to Period Comparison of Results of Operations — Year ended December 31, 2020 compared to Year ended December 31, 2019 — Net impairment losses on financial assets” in this section.

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Finance income, net

Our net finance income increased by approximately RMB0.3 million, or 75.0%, from approximately RMB0.4 million for the year ended December 31, 2020 to approximately RMB0.7 million for the year ended December 31, 2021, primarily attributable to the increase of interest income from bank deposits of approximately RMB0.5 million, or 45.9%.

Profit before income tax expense

Our profit before income tax expense decreased by approximately RMB3.1 million, or 6.9% from approximately RMB44.8 million for the year ended December 31, 2020 to approximately RMB41.7 million for the year ended December 31, 2021, primarily due to the cumulative effect of (i) the increase of selling and marketing expenses by approximately RMB22.7 million mainly contributed by our increased advertising and marketing expenses to support the launch of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets, (ii) the increase of research and development expenses by approximately RMB17.5 million primarily due to the increase in the employee benefits and salaries of our research and development staff; and (iii) increase of general and administrative expenses by approximately RMB13.5 million primarily due to the increase of [REDACTED] expenses, partially offset by the increase in gross profit by approximately RMB41.1 million mainly due to our successful expansion of *Football Champion* (最佳11人 — 冠軍球會) in the overseas markets during the year ended December 31, 2021.

Income tax expense

Our income tax expense decreased by approximately RMB1.8 million, or 43.9%, from approximately RMB4.1 million for the year ended December 31, 2020 to approximately RMB2.3 million for the year ended December 31, 2021, which was due to the tax effect of the Super Deduction which increased by approximately RMB3.4 million, or 69.0% from approximately RMB4.9 million for the year ended December 31, 2020 to approximately RMB8.3 million for the year ended December 31, 2021 as our qualified research and development expenses increased.

Profit for the year

For the reasons above, our profit for the year decreased by approximately RMB1.3 million, or 3.2%, from approximately RMB40.7 million for the year ended December 31, 2020 to approximately RMB39.4 million for the year ended December 31, 2021. Our net profit margin decreased from approximately 10.1% in 2020 to 8.6% in 2021, primarily due to the decrease in profit before income tax as mentioned above.

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Year ended December 31, 2020 compared to Year ended December 31, 2019

Revenue

Our revenue increased by approximately RMB26.1 million, or 6.9%, from approximately RMB378.6 million for the year ended December 31, 2019 to approximately RMB404.7 million for the year ended December 31, 2020, which was attributable to the combined effects of (i) the revenue generated from *Football Champion* (最佳11人 — 冠軍球會) of approximately RMB41.4 million for the year ended December 31, 2020 since its launch in April 2020 and (ii) the increase in revenue generated from *NBA Basketball Master* (NBA 籃球大師) by approximately RMB20.6 million, or 10.5%, from approximately RMB195.9 million for the year ended December 31, 2019 to approximately RMB216.5 million for the year ended December 31, 2020 following our successful securing of Carmelo Anthony, a famous basketball NBA player as the game’s ambassador and the corresponding launch of new in-game promotional events and certain in-game updates to enhance the game experience of users, which was partially offset by (i) the decrease in revenue generated from *Football Master* (足球大師) by approximately RMB29.3 million, or 16.8% from approximately RMB174.7 million for the year ended December 31, 2019 to approximately RMB145.4 million for the year ended December 31, 2020 as our Group devoted less marketing efforts on the game during the year and (ii) the decrease in revenue generated from *Chinese Super League* (冠軍中超OL) by approximately RMB6.3 million, from approximately RMB7.2 million for the year ended December 31, 2019 to approximately RMB0.9 million for the year ended December 31, 2020 as the game was discontinued in August 2020.

Cost of revenue

Our cost of revenue increased by approximately RMB16.9 million, or 8.1%, from approximately RMB207.5 million for the year ended December 31, 2019 to approximately RMB224.4 million for the year ended December 31, 2020. The increase in cost of revenue was primarily attributable to the launch of *Football Champion* (最佳11人 — 冠軍球會) in April 2020 which has contributed to (i) an increase by approximately RMB14.4 million, or 10.1%, of our commission fee payable to the Platforms; (ii) an increase by approximately RMB7.6 million, or 18.9%, of our license fees; and (iii) an increase by approximately RMB0.9 million, or 23.4%, of our server usage expenses. This increase is partially offset by the decrease in revenue sharing with third-party publishers by approximately RMB6.7 million, or 45.3%, from approximately RMB14.8 million for the year ended December 31, 2019 to approximately RMB8.1 million for the year ended December 31, 2020 due to the discontinuation of *Chinese Super League* (冠軍中超OL) in August 2020.

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Gross profit and gross profit margin

For the reasons mentioned above, our gross profit increased by approximately RMB9.3 million, or 5.4%, from approximately RMB171.1 million for the year ended December 31, 2019 to approximately RMB180.4 million for the year ended December 31, 2020. Our gross profit margin remained relatively stable at 45.2% and 44.6% for the two years ended December 31, 2019 and 2020, respectively.

Other gains/(losses), net

We recorded other net gains of approximately RMB0.7 million for the year ended December 31, 2019 as compared to other net losses of approximately RMB4.9 million for the year ended December 31, 2020. This was primarily due to the incurrance of exchange net loss of approximately RMB5.2 million in 2020 mainly due to the exchange rate fluctuation between US\$ and RMB for our U.S. dollar cash deposits equivalent to an amount of approximately RMB67.4 million.

Other income

Our other income increased by approximately RMB0.9 million, to approximately RMB1.9 million for the year ended December 31, 2020 from approximately RMB1.0 million for the year ended December 31, 2019 as we received certain new grants and/or subsidies from the local governmental departments.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB2.6 million, or 4.3%, from approximately RMB60.3 million for the year ended December 31, 2019 to approximately RMB62.9 million for the year ended December 31, 2020, which was primarily attributable to (i) the increase in advertising and marketing expenses by approximately RMB1.8 million, as we spent additional marketing efforts to advertise our games by inviting Fernando Torres and Carmelo Anthony to become our brand ambassadors to appear on our social media channels and other video streaming platforms; and (ii) the increase in employee benefits and salaries by approximately RMB0.8 million, following the increase of our sales and marketing team from 22 for the year ended December 31, 2019 to 29 for the year ended December 31, 2020.

General and administrative expenses

Our general and administrative expenses decreased by approximately RMB2.1 million, or 9.1%, from approximately RMB23.2 million for the year ended December 31, 2019 to approximately RMB21.1 million for the year ended December 31, 2020, which was primarily attributable to (i) the decrease of amortisation of intangible assets by approximately RMB3.2 million as *Football Champion* (最佳11人 — 冠軍球會) had been launched since April 2020, and with no new IP licensing agreements signed for the remainder of the year for unlaunched games; and (ii) a decrease by approximately RMB0.8

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million in other legal and professional consultancy fees, partially offset by an increase in employee benefits and salaries for our general and administrative staff by approximately RMB1.5 million.

Research and development expenses

Our research and development expenses increased by approximately RMB5.1 million, or 12.7%, from approximately RMB40.1 million for the year ended December 31, 2019 to approximately RMB45.2 million for the year ended December 31, 2020, which was primarily attributable to an increase by approximately RMB5.0 million in employee benefits and salaries for our research and development staff.

Net impairment losses on financial assets

Our net impairment losses on financial assets increased by approximately RMB3.7 million from approximately RMB0.1 million for the year ended December 31, 2019 to RMB3.8 million for the year ended December 31, 2020 primarily due to the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers, of an unpaid amount owed to our Company of approximately RMB3.7 million in 2020. As such amount has been outstanding for a certain period of time in breach of the cooperation agreement between such supplier and us, we took measures to recover the outstanding amount of approximately RMB3.7 million by serving repeated payment demand requests on such supplier. Our finance team has closely monitored the collectability of this payment and continues to communicate with such supplier to obtain updates of its anticipated settlement. However, as of December 31, 2020, such supplier still failed to comply with its proposed settlement schedule and we have not recovered the outstanding amount from such supplier. In view of this, we made provision for impairment of this amount for the year ended December 31, 2020. During the Track Record Period, we have entered into third-party publishing agreements with such supplier for publishing *Football Master* (足球大師), *NBA Basketball Master* (NBA籃球大師) and *Chinese Super League* (冠軍中超OL) through their platforms. Upon expiration of the aforementioned third-party publishing agreements, the Directors confirm that our Group does not intend to renew or extend such agreements nor continue to engage in business relationships with such supplier.

Finance income, net

Our net finance income decreased by approximately RMB1.1 million from approximately RMB1.5 million for the year ended December 31, 2019 to approximately RMB0.4 million for the year ended December 31, 2020, primarily attributable to (i) the change from a net interest income on interest accretion of licence fees and royalties payable in 2019 to a net interest expense by interest accretion of licence fees and royalties payable in 2020 and (ii) a decrease in interest income from bank deposits of approximately RMB0.2 million.

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Profit before income tax expense

Our profit before income tax expense decreased by approximately RMB5.7 million, or 11.3% from approximately RMB50.5 million for the year ended December 31, 2019 to approximately RMB44.8 million for the year ended December 31, 2020, primarily due to the cumulative effect of (i) the incurrence of exchange net loss of approximately RMB5.2 million as a result of exchange rate fluctuation between US\$ and RMB; (ii) increase of research and development expenses by approximately RMB5.1 million primarily due to an increase by approximately RMB5.0 million in employee benefits and salaries for our research and development staff; and (iii) and increase in net impairment losses on financial assets of approximately RMB3.7 million due to the provision for impairment of trade receivables from an overdue payment by one of our historical major suppliers of an unpaid amount owed to our Company of approximately RMB3.7 million in 2020, partially offset by an increase in gross profit by approximately RMB9.3 million mainly due to the launch of *Football Champion* (最佳11人 — 冠軍球會) during the year ended December 31, 2020.

Income tax expense

Our income tax expense decreased by approximately RMB0.8 million, or 16.3%, from approximately RMB4.9 million for the year ended December 31, 2019 to approximately RMB4.1 million for the year ended December 31, 2020, which was due to the decrease in profit before tax in 2020.

Profit for the year

For the reasons above, our profit for the year decreased by approximately RMB5.0 million, or 10.9%, from approximately RMB45.7 million for the year ended December 31, 2019 to approximately RMB40.7 million for the year ended December 31, 2020. Our net profit margin decreased slightly from approximately 12.1% in 2019 to 10.1% in 2020, primarily due to the decrease in profit before income tax expense as mentioned above.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operating activities and our cash and bank balances comprising the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Gavena Ventures. We had cash and cash equivalents of approximately RMB145.0 million, RMB163.7 million, RMB188.4 million and RMB188.5 million as at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. For the purpose of presentation in the consolidated statements of cash flows, our cash and cash equivalents comprise cash on hand and demand deposits, which are subject to an insignificant risk of changes in value. We generally deposit our excess cash in interest-bearing bank accounts and current accounts.

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We require cash primarily for our operation and general working capital needs. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, our existing cash and bank balances, the [REDACTED] received from the [REDACTED] and other possible equity and debt financings raised from the capital markets from time to time and as and when appropriate.

Cash flow

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Net cash generated from operating activities	90,633	77,715	67,831	2,291	11,835
Net cash used in investing activities	(4,348)	(30,179)	(18,484)	(20,805)	(8,854)
Net cash used in financing activities	(12,012)	(23,174)	(23,326)	(19,741)	(4,265)
Net increase/(decrease) in cash and cash equivalents	74,273	24,362	26,021	(38,255)	(1,284)
Cash and cash equivalents at end of the year/period	145,032	163,723	188,410	124,776	188,493

Net cash generated from operating activities

Our primary source of cash generated from operating activities consists of revenue generated from our games. Our cash used in operating activities are mainly used to fund the development, publishing and operation of our games.

For the six months ended June 30, 2022, our net cash generated from operating activities was approximately RMB11.8 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB23.9 million; (ii) adjustment from amortisation of intangible assets of approximately RMB9.0 million mainly attributable to the amortisation under our existing and new IP licensing agreements such as NBA and NBPA for *NBA Basketball Master* (NBA 籃球大師) as well as FIFPro for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會); (iii) changes in working capital, which primarily comprised an increase in trade receivables, prepayments and other receivables of approximately RMB28.6 million, and an increase in contract liabilities of approximately RMB7.0 million; and (iv) the depreciation of right-of-use assets of approximately RMB3.1 million primarily due to the new lease agreement signed during the period, which were partially offset by approximately RMB4.2 million for income tax paid.

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For the year ended December 31, 2021, our net cash generated from operating activities was approximately RMB67.8 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB41.7 million; (ii) adjustment from amortisation of intangible assets of approximately RMB19.4 million mainly attributable to the amortisation under our existing and new IP licensing agreements, such as NBA and NBPA for *NBA Basketball Master* (NBA 籃球大師) as well as FIFPro for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會); (iii) changes in working capital, which primarily comprised an increase of trade receivable, prepayments and other receivable of approximately RMB16.8 million, an increase of trade and other payable of approximately RMB10.4 million and an increase of contract liabilities of approximately RMB6.9 million; (iv) the depreciation of right-of-use assets of approximately RMB4.1 million primarily due to the new lease agreement for our new office in Qianhai signed during 2021; and (v) adjustment for exchange difference of approximately RMB3.1 million, which were partially offset by approximately RMB3.6 million for income tax paid.

For the year ended December 31, 2020, our net cash generated from operating activities was approximately RMB77.7 million, which primarily reflected the combined effects of (i) our profit before income tax of approximately RMB44.8 million; (ii) adjustment for amortisation of intangible assets of approximately RMB19.3 million as we renewed our IP licensing agreements with FIFPro for *Football Master* (足球大師) and we entered into IP licensing agreements with two football clubs for *Football Champion* (最佳11人 — 冠軍球會) and *Football Master* (足球大師); (iii) changes in working capital, which primarily comprised a decrease of trade receivable, prepayments and other receivable of approximately RMB4.2 million and an increase of contract liabilities of approximately RMB8.4 million; and (iv) adjustment for exchange difference of approximately RMB6.7 million, which were partially offset by approximately RMB7.2 million for income tax paid.

For the year ended December 31, 2019, we had net cash generated from operating activities of approximately RMB90.6 million, which was primarily contributed by (i) our profit before income tax of approximately RMB50.5 million; (ii) adjustment for amortisation of intangible assets of approximately RMB18.5 million as we renewed our IP licensing agreements with NBA and NBPA for *NBA Basketball Master* (NBA 籃球大師) and entered into a IP licensing agreement with a new football club for *Football Champion* (最佳11人 — 冠軍球會); and (iii) changes in working capital, which primarily comprised a decrease of trade receivable, prepayments and other receivable of approximately RMB12.2 million and an increase of trade and other payable of approximately RMB14.9 million, which were partially offset by approximately RMB5.4 million for income tax paid.

Net cash used in investing activities

Our net cash used in investing activities primarily reflects cash used for purchases of financial assets at fair value through profit or loss, and purchases of property, plant and equipment, purchases of intangible assets; offset by proceeds from disposal of financial assets at fair value through profit or loss.

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For the six months ended June 30, 2022, our net cash used in investing activities was approximately RMB8.9 million, which primarily reflected the combined effects of (i) purchase of financial assets at fair value through profit or loss of RMB19.8 million due to investments in wealth management products; (ii) purchase of intangible assets of approximately RMB6.5 million representing the IP rights obtained from sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players; and (iii) purchases of property, plant and equipment of approximately RMB2.5 million, which were partially offset by the proceeds from disposal of financial assets as fair value through profit or loss of approximately RMB19.8 million due to the sale of the purchased wealth management products during the six months ended June 30, 2022.

For the year ended December 31, 2021, our net cash used in investing activities was approximately RMB18.5 million, which primarily reflected the combined effects of purchase of financial assets at fair value through profit or loss of RMB111.5 million due to investments in wealth management products, purchase of intangible assets of approximately RMB19.5 million representing the IP rights from renowned sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players and purchases of property, plant and equipment of approximately RMB4.6 million, which were partially offset by the proceeds from disposal of financial assets as fair value through profit or loss of approximately RMB113.0 million due to the sale of the purchased wealth management products during the year and repayments from related parties of RMB4.1 million.

For the year ended December 31, 2020, our net cash used in investing activities was approximately RMB30.2 million, which primarily reflected the combined effects of purchase of financial assets at fair value through profit or loss of approximately RMB104.7 million due to investments in wealth management products, purchase of intangible assets of approximately RMB23.6 million representing the IP rights from renowned sports league, sports associations and sports clubs to use their trademarks and products, including but not limited to the right to use their brand name, image of stadium, brand’s application manual, jersey, names and images of individual players, advance to related parties of RMB4.0 million and purchase of property, plant and equipment of approximately RMB2.1 million, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB104.0 million due to the sale of the purchased wealth management products during the year.

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For the year ended December 31, 2019, our net cash used in investing activities was approximately RMB4.3 million, which primarily reflected the combined effects of the purchase of financial assets at fair value through profit or loss of approximately RMB55.5 million due to investments in wealth management products and purchase of intangible assets of approximately RMB13.6 million mainly for the IP right licenses from NBA and NBPA of approximately RMB8.0 million and from FIFPro of approximately RMB3.2 million, which were partially offset by the proceeds from disposal of financial assets at fair value through profit or loss of approximately RMB65.8 million due to the sale of the purchased wealth management products during the year.

Net cash used in financing activities

Our cash used in financing activities primarily reflects dividends paid, payment for [REDACTED] expenses and payment for principal elements of lease liabilities which were partially offset by the proceeds from issuance of a financial liability at fair value through profit or loss (i.e. the Pre-[REDACTED] Convertible Bonds).

For the six months ended June 30, 2022, our net cash used in financing activities was approximately RMB4.3 million, which primarily reflected the combined effects of the payments for principal elements of lease liabilities of approximately RMB2.7 million and payment of [REDACTED] expenses of approximately RMB1.2 million.

For the year ended December 31, 2021, our net cash used in financing activities was approximately RMB23.3 million, which primarily reflected the combined effects of dividends paid of RMB80.0 million, payments for principal elements of lease liabilities of approximately RMB4.2 million and payment of [REDACTED] expenses of approximately RMB[REDACTED], which were partially offset by the proceeds from issuance of Pre-[REDACTED] Convertible Bonds of approximately RMB[REDACTED].

For the year ended December 31, 2020, our net cash used in financing activities was approximately RMB23.2 million, which primarily reflected the combined effects of dividends paid of RMB20.0 million, payment for principal elements of lease liabilities of approximately RMB2.4 million and payment of [REDACTED] expenses of approximately RMB[REDACTED].

For the year ended December 31, 2019, our net cash used in financing activities was approximately RMB12.0 million, which primarily reflected the combined effects of dividends paid of RMB8.0 million, payment for principal elements of lease liabilities of approximately RMB2.7 million and payment of [REDACTED] expenses of approximately RMB[REDACTED].

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DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.

	As at December 31,			As at	As at
	2019	2020	2021	June 30, 2022	July 31, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
Current assets					
Trade receivables	27,392	20,321	35,598	52,251	52,047
Prepayment, deposits and other receivables	8,221	8,535	15,942	18,073	17,444
Current income tax receivables	—	250	567	2,928	2,928
Amounts due from non-controlling interests	1,865	1,865	1,715	675	675
Amounts due from shareholders	120	48	—	—	—
Amounts due from related parties	232	4,136	36	—	—
Financial assets at fair value through profit or loss	—	999	—	—	6,500
Contract costs	8,723	11,632	13,108	14,870	16,002
Short-term bank deposits	90	85	83	—	—
Cash and cash equivalents	<u>145,032</u>	<u>163,723</u>	<u>188,410</u>	<u>188,493</u>	<u>205,140</u>
	191,675	211,594	255,459	277,290	300,736
Current liabilities					
Trade payables	43,307	41,031	30,617	31,982	33,682
Other payables and accruals	26,690	27,810	39,632	35,202	53,956
Contract liabilities	20,541	28,934	35,853	42,823	46,350
Current income tax liabilities	6,737	3,121	611	3,262	4,164
Lease liabilities	1,737	2,082	4,558	6,736	6,736
Financial liability at fair value through profit or loss	—	—	65,642	66,956	66,956
	<u>99,012</u>	<u>102,978</u>	<u>176,913</u>	<u>186,961</u>	<u>211,844</u>
Net current assets	<u><u>92,663</u></u>	<u><u>108,616</u></u>	<u><u>78,546</u></u>	<u><u>90,329</u></u>	<u><u>88,892</u></u>

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As at December 31, 2019, 2020 and 2021 and June 30, 2022, we had net current assets of approximately RMB92.7 million, RMB108.6 million, RMB78.5 million and RMB90.3 million, respectively.

Our net current assets increased by approximately RMB15.9 million, or 17.2%, from approximately RMB92.7 million as at December 31, 2019 to approximately RMB108.6 million as at December 31, 2020, primarily due to (i) an increase in cash and cash equivalents by approximately RMB18.7 million generated from the increase in cash from operating activities mainly as a result of our then newly launched game, *Football Champion* (最佳11人 — 冠軍球會) in 2020; (ii) a decrease in current income tax liabilities by approximately RMB3.6 million; and (iii) an increase in contract costs of approximately RMB2.9 million, partially offset by an increase in contract liabilities of approximately RMB8.4 million and a decrease in trade receivables of approximately RMB7.1 million.

Our net current assets decreased by approximately RMB30.1 million, or 27.7%, from approximately RMB108.6 million as at December 31, 2020 to approximately RMB78.5 million as at December 31, 2021, primarily due to (i) the settlement of a dividend of RMB80.0 million declared during 2021; and (ii) an increase in other payables and accruals of approximately RMB11.8 million, partially offset by an increase in trade receivables of approximately RMB15.3 million and an increase in cash and cash equivalents of approximately RMB24.7 million mainly due to revenue generated from our games and the proceeds from the Pre-[REDACTED] Convertible Bonds subscribed by Garena Ventures, an increase in current portion of prepayment, deposits and other receivables of approximately RMB7.4 million as well as a decrease of trade payables of approximately RMB10.4 million.

Our net current assets increased by approximately RMB11.8 million, or 15.0%, from approximately RMB78.5 million as at December 31, 2021 to approximately RMB90.3 million as at June 30, 2022, primarily due to (i) an increase in trade receivables of approximately RMB16.7 million in line with our revenue growth during the period; (ii) an increase in current position of prepayment, deposits and other receivables of approximately RMB2.1 million; (iii) an increase in current income tax receivables of approximately RMB2.4 million; and (iv) a decrease in other payables and accruals of approximately RMB4.4 million, partially offset by an increase in contract liabilities of approximately RMB7.0 million and an increase in current income tax liabilities of approximately RMB2.7 million.

As at July 31, 2022, our unaudited net current assets remained stable at approximately RMB88.9 million.

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Property, plant and equipment

The following table sets out the respective net book amount of our Group’s property, plant and equipment as at the dates as indicated:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Computers and other equipment	1,590	1,285	1,837	3,123
Furniture & fixtures	220	373	512	700
Leasehold improvement	<u>303</u>	<u>872</u>	<u>2,158</u>	<u>2,082</u>
Total	<u><u>2,113</u></u>	<u><u>2,530</u></u>	<u><u>4,507</u></u>	<u><u>5,905</u></u>

Our Group’s property, plant and equipment mainly consist of computers and other equipment as well as leasehold improvement. The net book amounts of our property, plant and equipment as at December 31, 2019 and 2020 were relatively stable and recorded at approximately RMB2.1 million and RMB2.5 million, respectively. The net book amounts of our property, plant and equipment increased by approximately RMB2.0 million, from approximately RMB2.5 million as at December 31, 2020 to approximately RMB4.5 million as at December 31, 2021 as we signed a new lease agreement for our new office in Qianhai and we increased expenses in computers and other equipment for the use of our new office. The net book amounts of our property, plant and equipment further increased by approximately RMB1.4 million from approximately RMB4.5 million as at December 31, 2021 to approximately RMB5.9 million as at June 30, 2022 since we signed a new lease agreement for our office use and recruited more employees during the six months ended June 30, 2022 and accordingly purchased additional computers and other equipment.

Intangible assets

During the Track Record Period, our intangible assets consist of licenses and software. The following table sets out the respective net book amount of our intangible assets as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Licenses	33,729	25,945	14,727	9,767
Software	<u>300</u>	<u>285</u>	<u>291</u>	<u>1,031</u>
Total	<u><u>34,029</u></u>	<u><u>26,230</u></u>	<u><u>15,018</u></u>	<u><u>10,798</u></u>

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The net book amounts of our intangible assets decreased by approximately RMB7.8 million from approximately RMB34.0 million as at December 31, 2019 to approximately RMB26.2 million mainly due to the amortisation of existing IP right licenses and no new IP right license was obtained from other sports leagues, sports associations and sports clubs in 2020. The net book amounts of our intangible assets further decreased by approximately RMB11.2 million from approximately RMB26.2 million as at December 31, 2020 to approximately RMB15.0 million as at December 31, 2021 mainly due to a combination of the (i) amortisation of existing IP right licenses; (ii) renewal of the IP right licenses of FIFPro for *Football Champion* (最佳11人 — 冠軍球會) and (iii) new IP right licenses obtained from Paris Saint-Germain. The net book amounts of our intangible assets further decreased by approximately RMB4.2 million from approximately RMB15.0 million as at December 31, 2021 to approximately RMB10.8 million as at June 30, 2022 mainly due to the amortization of existing IP right licenses, mainly from FIFPro, NBA and NBPA, partially offset by the new IP right licenses obtained from Borussia Dortmund for *Football Master* (足球大師) and *Football Champion* (最佳11人 — 冠軍球會) and F.C. Barcelona for *Football Champion* (最佳11人 — 冠軍球會) and the extension of the IP right license from FIFPro for *Football Master* (足球大師) during the six months ended June 30, 2022.

Amortisation expenses in relation to intangible assets were charged in cost of revenue and general and administrative expenses in the consolidated statements of comprehensive income.

Trade receivables

Our trade receivables mainly comprised the outstanding amounts due from the Platforms and third-party publishers for sale proceeds generated from the sale of in-game virtual items to paying users.

The third-party distribution platforms generally settle payments to us by bank remittance and credit periods within one to three months from receipt of our invoice were typically allowed for those platforms with good repayment history during the Track Record Period. The table below sets out a breakdown of our trade receivables as at the dates indicated:

	2019	As at December 31,		As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Trade receivables	28,957	24,310	39,427	57,852
Less: net impairment loss on trade receivables	(1,565)	(3,989)	(3,829)	(5,601)
Trade receivables, net	<u>27,392</u>	<u>20,321</u>	<u>35,598</u>	<u>52,251</u>

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Our net trade receivables decreased from approximately RMB27.4 million as at December 31, 2019 to RMB20.3 million as at December 31, 2020, due to (i) the early settlement of approximately RMB1.9 million trade receivables from Supplier C; and (ii) the provision for trade receivable impairment for one of our historical major suppliers of an overdue amount owed to us in the sum of approximately RMB3.7 million. Our net trade receivables increased from approximately RMB20.3 million as at December 31, 2020 to approximately RMB35.6 million as at December 31, 2021, mainly due to the increase in in-game purchases during the last quarter of 2021 by our users through various third-party distribution platforms as a result of our launch of *Football Champion* (最佳11人 — 冠軍球會) in overseas markets such as Hong Kong, Vietnam and South Korea during August and September 2021. Our net trade receivables increased from approximately RMB35.6 million as at December 31, 2021 to approximately RMB52.3 million as at June 30, 2022, which was in line with our growth of revenue generated from users making payments through the Platforms during the six months ended June 30, 2022.

The following table sets forth our average trade receivables turnover days as at the dates indicated:

		As at December 31,		As at
	2019	2020	2021	June 30, 2022
Average trade receivables turnover days ⁽¹⁾	35	24	25	30

- (1) Average trade receivables turnover days is equal to the average of the opening and closing balances of gross trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2019, 2020 and 2021 and 182 days for the six months ended June 30, 2022.

As at December 31, 2019, 2020 and 2021 and June 30, 2022, our average trade receivables turnover days were 35 days, 24 days, 25 days and 30 days, respectively, which were in line with the credit periods granted by us of one to three months. Our average trade receivables turnover days decreased from 35 days in 2019 to 24 days in 2020, which was mainly due to the decrease in trade receivables in 2020, partly resulting from the early settlement of approximately RMB1.9 million trade receivables from Supplier C. Our average trade receivables turnover days in 2021 maintained at a stable level as that in 2020. The higher average trade receivables turnover days of 30 days as at June 30, 2022 as compared to 25 days as at December 31, 2021 was mainly due to the increase in trade receivables, which was in line with our growth of revenue generated from users making payments through the Platforms during the six months ended June 30, 2022.

As of the Latest Practicable Date, approximately RMB49.0 million, or 93.8% of our trade receivables as at June 30, 2022 were subsequently settled.

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The following table sets out the aging analysis of our trade receivables as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	20,920	19,607	34,398	52,389
3 months to 1 year	4,139	762	1,305	1,811
Over 1 year	<u>3,898</u>	<u>3,941</u>	<u>3,724</u>	<u>3,652</u>
	<u><u>28,957</u></u>	<u><u>24,310</u></u>	<u><u>39,427</u></u>	<u><u>57,852</u></u>

The following table sets out the movements for impairment loss on our trade receivables as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/ period	1,436	1,565	3,989	3,829
Provision for/(reversal of) impairment	129	3,788	(160)	1,772
Written off	<u>—</u>	<u>(1,364)</u>	<u>—</u>	<u>—</u>
At end of the year/period	<u><u>1,565</u></u>	<u><u>3,989</u></u>	<u><u>3,829</u></u>	<u><u>5,601</u></u>

We apply HKFRS 9 simplified approach to measure expected credit loss which uses a lifetime expected loss allowance for our trade receivables. To measure the expected credit loss, trade receivables relating to the Platforms or third-party publishers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance, with the remaining trade receivables being grouped based on shared credit risk characteristics. As at December 31, 2019 and 2020 and June 30, 2022, our Group recorded net impairment losses on trade receivables of approximately RMB0.1 million, RMB3.8 million and RMB1.8 million, respectively. We recorded a reversal of impairment loss on trade receivables of approximately RMB0.2 million as at December 31, 2021. As at December 31, 2020, an impairment of trade receivables of approximately RMB1.4 million was written off in relation to the non-payment of long outstanding receivables from a third-party distribution platform in the PRC.

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Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly comprised (i) prepayment for [REDACTED] expenses; (ii) prepayment for royalty fees which represented upfront license fees payable to the IP right holders before the commencement of the term of the license; and (iii) prepayment for advertising and marketing expenses. The following table sets out a summary of our current and non-current prepayments, deposits and other receivables as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Prepayment for [REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepayment for royalty fees	275	3,516	363	6,903
Prepayment for advertisement and marketing expenses	908	1,966	5,666	4,045
Prepayment for renovation cost	—	—	—	513
Other prepayments	1,000	1,071	1,481	2,086
Deposits	268	312	1,235	1,526
Loan granted to employees	642	152	466	398
Other receivables	478	106	532	475
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Our total prepayments, deposits and other receivables increased by approximately RMB3.5 million, from approximately RMB8.7 million as at December 31, 2019 to approximately RMB12.2 million as at December 31, 2020 primarily due to an increase of prepayment for royalty fees by approximately RMB3.2 million, representing the upfront license fees payable by us to the IP right holders after entering into and renewing certain IP licensing agreements during the year ended December 31, 2020 and an increase in prepayment for advertisement and marketing expenses by approximately RMB1.1 million attributable to the brand ambassador agreements entered into with Carmelo Anthony and Fernando Torres. Our total prepayments, deposits and other receivables further increased by approximately RMB5.0 million from approximately RMB12.2 million as at December 31, 2020 to approximately RMB17.2 million as at December 31, 2021 due to the increase in prepayment for [REDACTED] expenses by approximately RMB[REDACTED] for the preparation of the [REDACTED] and the increase in prepayment for advertisement and marketing expenses by approximately RMB3.7 million attributable to our advertisement and marketing efforts to promote *Football Champion (最佳11人 — 冠軍球會)* in overseas markets including approximately RMB2.3 million for engaging Andrés Iniesta Luján as our game ambassador. Our total prepayments, deposits and other receivables increased by approximately RMB9.9 million from approximately RMB17.2 million as at December 31,

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2021 to approximately RMB27.1 million as at June 30, 2022 due to the increase in prepayment for [REDACTED] expenses by approximately RMB3.7 million for the preparation of the [REDACTED] and the increase in prepayment for royalty fees by approximately RMB6.5 million as we acquired the IP right licenses from FIFPro during the six months ended June 30, 2022 for our newly launched football action simulation game, *Total Football* (最佳球會) in July 2022.

Amounts due from non-controlling interests

During the Track Record Period, amounts due from non-controlling interests of approximately RMB1.9 million, RMB1.9 million, RMB1.7 million and RMB0.7 million, respectively, were non-interest bearing, unsecured and repayable on demand. Please see Note 20 of the Accountant’s Report in Appendix I to this document for more information.

Amounts due from shareholders

As at December 31, 2020, we had an outstanding amount due from Mr. Li Xin of approximately RMB48,000. The amounts due from shareholders are non-trade in nature, unsecured, interest free and repayable on demand, and were fully settled as of December 31, 2021. Please see Note 31 of the Accountant’s Report in Appendix I to this document for more information.

Amounts due from related parties

Our amounts due from related parties represent loans to our key management personnel. Our amounts due from related parties increased by approximately RMB3.9 million from approximately RMB0.2 million as at December 31, 2019 to approximately RMB4.1 million as at December 31, 2020, mainly due to a loan advanced to Mr. Guo, one of our senior management in an amount of RMB4.0 million which was settled in 2021. The outstanding amounts due from Mr. Guo of RMB36,000 as at December 31, 2021 has been subsequently settled during the six months ended June 30, 2022.

Financial Assets at fair value through profit or loss

We had no financial assets at fair value through profit or loss as at December 31, 2019 and 2021 and June 30, 2022 as we fully redeemed our wealth management products at maturity by the end of each of the respective period. As at December 31, 2020, our financial assets at fair value through profit or loss was approximately RMB1.0 million which primarily consisted of purchased wealth management products of approximately RMB104.7 million which was then set off by the disposal of approximately RMB104.0 million during the year. The majority of wealth management products we purchased was short-term instrument and issued by licensed bank(s) in the PRC. Although such wealth management products were non-principal guaranteed, they were generally described as having low risk in the product description manuals issued by the issuing bank(s).

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We are subject to interest risk, default risk and market risk associated with the investment in these wealth management products, which our Group cannot exclude the possibility of incurring potential loss therefrom. The chief financial officer of our Group, Mr. Chu Kai Chi, is responsible for reviewing and approving all investments in wealth management products, where he would consider various factors such as the structural risks of the wealth management products, the credibility of the issuing financial institution, past financial performance of the wealth management products and the cash flow of our Group. Mr. Chu has over 13 years of finance experience and has been a certified public accountant since January 2011. He acted as the chief financial officer and financial manager of various companies prior to joining our Group where he had accumulated experience in strategic and investment planning. For further details of Mr. Chu’s prior experience, please refer to the section headed “Directors and Senior Management — Senior Management” of this document.

Our Group has an investment policy in place and upon ensuring we have sufficient funds for our operations and investment activities, our finance team shall formulate a financial plan and obtain approval from our general manager before investing in any wealth management products. The investment funds for the wealth management products shall be surplus cash of our Company and would not hinder the capital needs of our Group. Such wealth management products shall only be those offered from banks and financial institutions and do not include any structured derivatives linked to interest rates, exchange rates or other securities.

Trade payables

Our total trade payables mainly comprise license fee and royalty fee payable to the IP right holders for the rights to use the intellectual properties in our developed games.

	As at December 31,			As at
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
				<i>RMB'000</i>
Non-current — Third parties	9,715	—	—	—
Current — Third parties	<u>43,307</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>
	<u>53,022</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>

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Our total trade payables decreased by approximately RMB12.0 million from approximately RMB53.0 million as at December 31, 2019 to approximately RMB41.0 million as at December 31, 2020, primarily due to the settlement of a non-current third-party trade payable during the year ended December 31, 2020 in relation to the contracts signed with NBA and NBPA. Our total trade payables further decreased by approximately RMB10.4 million from approximately RMB41.0 million as at December 31, 2020 to approximately RMB30.6 million as at December 31, 2021 primarily due to the settlement of current third-party trade payables in relation to the contracts signed with NBA and NBPA. Our total trade payables remained at a stable level as at June 30, 2022 with a slight increase of approximately RMB1.4 million from approximately RMB30.6 million as at December 31, 2021 to RMB32.0 million as at June 30, 2022.

The following table sets forth our average trade payables turnover days for the years indicated:

	As at December 31,			As at
	2019	2020	2021	June 30,
				2022
Average trade payables turnover days ⁽¹⁾	66	77	55	39

- (1) Average trade payables turnover days is equal to the average of the opening and closing balances of trade payables of the relevant period divided by cost of revenue of the relevant period and multiplied by 365 days for each of the years ended December 31, 2019, 2020 and 2021 and 182 days for the six months ended June 30, 2022.

As at December 31, 2019, 2020 and 2021 and June 30, 2022, our average trade payables turnover days were approximately 66 days, 77 days, 55 days and 39 days, respectively. The increase in average trade payables turnover days from 66 in 2019 to 77 days in 2020 was due to the higher opening balance of the trade payables for 2020 from the aforementioned NBA and NBPA license contracts. The decrease in average trade payables turnover days from 77 in 2020 to 55 days in 2021 was primarily due to the settlement of current third-party trade payables in relation to the NBA and NBPA contracts as mentioned above. Our average trade payables turnover days further decreased from 55 days as at December 31, 2021 to 39 days as at June 30, 2022, primarily due to the increase in cost of revenue in line with our revenue growth for the six months ended June 30, 2022 while our trade payables remained relatively stable as of June 30, 2022. We are generally granted with credit terms of up to 45 days by our suppliers. We recorded trade payables turnover days as at December 31, 2019, 2020 and 2021 higher than the usual credit terms granted by our suppliers due to the time difference between the date of recognizing the services provided by our suppliers to us and the invoice date. We record the trade payables amount upon accepting the services but our credit period begins as of the invoice date in which such invoice may be issued days or weeks after our accepting of the services and depending upon the billing cycle of the suppliers.

As of the Latest Practicable Date, approximately RMB1.2 million, or 3.8% of our trade payables as at June 30, 2022 were subsequently settled.

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The following table sets out the aging analysis of our total trade payables as at the dates indicated:

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0–90 days	37,427	22,114	17,155	22,740
91–365 days	9,985	4,787	2,172	1,078
1–2 years	5,610	9,114	4,546	1,389
Over 2 years	<u>—</u>	<u>5,016</u>	<u>6,744</u>	<u>6,775</u>
	<u>53,022</u>	<u>41,031</u>	<u>30,617</u>	<u>31,982</u>

Other payables and accruals

Our other payables and accruals mainly comprised (i) payroll and welfare payables; (ii) other tax payables; and (iii) accrued expenses.

	As at December 31,			As at June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payroll and welfare payables	12,157	12,669	12,426	7,735
Other tax payables	8,611	11,197	11,065	13,772
Accrued expenses	5,184	3,235	15,645	13,321
Others	806	917	802	829
Less: non-current portion	<u>(68)</u>	<u>(208)</u>	<u>(306)</u>	<u>(455)</u>
Current portion	<u>26,690</u>	<u>27,810</u>	<u>39,632</u>	<u>35,202</u>

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Our current portion of other payables and accruals remained relatively stable at approximately RMB26.7 million and RMB27.8 million as at December 31, 2019 and 2020, respectively. Our current portion of other payables and accruals increased by approximately RMB11.8 million from approximately RMB27.8 million as at December 31, 2020 to approximately RMB39.6 million as at December 31, 2021 mainly contributed by the increase of approximately RMB12.4 million in accrued expenses primarily resulting from our advertising fee. Our current portion of other payables and accruals decreased by approximately RMB4.4 million from approximately RMB39.6 million as at December 31, 2021 to approximately RMB35.2 million as at June 30, 2022 primarily due to the decrease of approximately RMB4.7 million in payroll and welfare payables as during the six months ended June 30, 2022, we settled the annual bonus for our employees declared before December 31, 2021.

As of the Latest Practicable Date, approximately RMB13.2 million, or 37.5% of our current portion of other payables and accruals as at June 30, 2022 were subsequently settled.

Contract Liabilities and Contract Costs

Contract liabilities primarily consist of the unamortized revenue from the sale of in-game virtual items, where there is still an implied obligation to be provided by our Group and will be recognized as revenue when all of the revenue recognition criteria are met. During the Track Record Period, we recorded contract liabilities of approximately RMB20.5 million, RMB28.9 million, RMB35.9 million and RMB42.8 million, respectively. The increases in our contract liabilities during the Track Record Period were in line with the stable growth of the in-game spending level of our users in our existing games. In particular, the launch of *Football Champion (最佳11人 — 冠軍球會)* in Hong Kong, South Korea and Vietnam during August and September 2021 significantly boosted the in-game spending from paying users of these new overseas markets. Given the same revenue recognition criteria adopted during the Track Record Period, the overall growth of in-game sale resulted in the increase of our contract liabilities. As of the Latest Practicable Date, RMB41.0 million, or 95.8% of our contract liabilities as at June 30, 2022 were subsequently settled. Contract costs primarily refer to incremental costs of obtaining a contract, including unamortized commission fee charged by the Platforms and unamortized revenue sharing to third-party publishers which are capitalised if they are expected to be recorded. During the Track Record Period, our contract costs amounted to approximately RMB8.7 million, RMB11.6 million, RMB13.1 million and RMB14.9 million, respectively. Capitalised contract costs are amortised on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates. Similar to the increases of our contract liabilities during the Track Record Period, the increases in our contract costs during the Track Record Period were in line with the stable growth of the in-game sale of virtual items which in turn resulted in more unamortized commission fee charged by the Platforms.

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Current Income Tax Receivables and Current Income Tax Liabilities

Current income tax receivables and liabilities primarily consist of PRC and Hong Kong tax. During the Track Record Period, we recorded current income tax receivables of approximately nil, RMB0.3 million, RMB0.6 million and RMB2.9 million, respectively and current income tax liabilities of approximately RMB6.7 million, RMB3.1 million, RMB0.6 million and RMB3.3 million, respectively. The increase in current income tax receivables as of June 30, 2022 was mainly due to the increase of prepayments of current income tax made by the WFOE. The decreases in current income tax liabilities during the years ended December 31, 2019, 2020 and 2021 were mainly due to the combined effects of (i) our Company repaying a greater amount of their tax liabilities; and (ii) our Company claiming a greater amount of tax deductible expenses from the continuous increase in research and development expenses incurred during the years ended December 31, 2019, 2020 and 2021. As of June 30, 2022, the current income tax liabilities rebounded to approximately RMB3.3 million, mainly due to the increase of CIT rate applicable to Wangchen Technology to 25% for the six months ended June 30, 2022.

Right-of-use assets and Lease Liabilities

During the Track Record Period, our Group has leased properties in the PRC primarily for business and office purposes. The following table sets out our right-of-use assets and lease liabilities as at the dates indicated:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Right-of-use assets	2,610	3,541	12,488	14,445
Current lease liabilities	1,737	2,082	4,558	6,736
Non-current lease liabilities	600	1,484	7,830	7,986
Total lease liabilities	2,337	3,566	12,388	14,722

Our right-of-use assets and lease liabilities increased by approximately RMB0.9 million and RMB1.2 million respectively as at December 31, 2020 when compared with 2019 as we renewed our lease in relation to our Shenzhen office and signed a new lease during the year. Our right-of-use assets and lease liabilities increased by approximately RMB8.9 million and RMB8.8 million respectively as at December 31, 2021 when compared with 2020 as we moved our headquarters to Qianhai Shenzhen — Hong Kong Modern Service Industry Cooperation Zone and signed the corresponding new lease agreement during the year. Our right-of-use assets and lease liabilities increased by approximately RMB2.0 million and RMB2.3 million respectively as at June 30, 2022 when compared with that as at December 31, 2021, as we signed a new lease agreement for our office use during the six months ended June 30, 2022.

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KEY FINANCIAL RATIOS

The following table sets forth our key financial metrics for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
Gross profit margin	45.2%	44.6%	48.2%	45.7%	50.5%
Net profit margin ⁽¹⁾	12.1%	10.1%	8.6%	3.9%	6.9%
Return on equity ⁽²⁾	36.4%	27.8%	36.6%	N/A	N/A
Return on assets ⁽³⁾	19.3%	16.1%	13.5%	N/A	N/A
Interest coverage ratio ⁽⁴⁾	251.3 times	72.5 times	55.6 times	13.2 times	46.9 times
	As at December 31,			As at June 30,	
	2019	2020	2021	2021	2022
Current ratio ⁽⁵⁾	1.9 times	2.1 times	1.4 times	1.5 times	1.5 times
Quick ratio ⁽⁶⁾	1.9 times	2.1 times	1.4 times	1.5 times	1.5 times
Debt-to-equity ratio ⁽⁷⁾	N/A	N/A	N/A	N/A	N/A

Notes:

1. Net profit margin equals to profit for the year/period divided by revenue for the year/period, multiplied by 100%.
2. Return on equity equals profit attributable to owners of our Company for the year divided by the closing balance of the equity attributable to owners of our Company, multiplied by 100%.
3. Return on assets equals profit for the year divided by the closing balance of total assets, multiplied by 100%.
4. Interest coverage ratio equals to operating profit for the year/period divided by interest expenses for the year/period.
5. Current ratio equals to total current assets divided by total current liabilities as at the year/period end date.
6. Quick ratio equals to total current assets less inventories divided by total current liabilities as at the year/period end date.
7. Debt-to-equity ratio equals to net debt divided by total equity as at the year/period end date. Net debt is defined to include all interest bearing bank borrowings and financial liability at fair value through profit or loss net of cash and cash equivalents.

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Return on equity

Our return on equity decreased from approximately 36.4% for the year ended December 31, 2019 to approximately 27.8% for the year ended December 31, 2020, primarily due the increase in equity attributable to owners of our Company by approximately RMB21.5 million, or 16.8%, from RMB128.0 million as at December 31, 2019 to RMB149.5 million as at December 31, 2020 resulted from the increase in retained earnings by approximately RMB14.3 million during the year ended December 31, 2020 as compared with the previous year. Our return on equity increased from approximately 27.8% for the year ended December 31, 2020 to approximately 36.6% for the year ended December 31, 2021 mainly due to the decrease in equity attributable to owners of our Company by approximately RMB40.3 million, or 26.9%, from RMB149.5 million as at December 31, 2020 to RMB109.2 million as at December 31, 2021, resulted from the decrease in retained earnings by approximately RMB45.9 million during the year ended December 31, 2021 as compared with the previous year mainly due to the dividends declared and distributed of RMB80.0 million during 2021.

Return on assets

Our return on assets decreased from approximately 19.3% for the year ended December 31, 2019 to 16.1% for the year ended December 31, 2020, primarily due to the increase in total assets by approximately RMB16.0 million, or 6.8%, from approximately RMB236.7 million as at December 31, 2019 to approximately RMB252.7 million as at December 31, 2020 contributed by the increase in cash and cash equivalents mainly generated by our operating activities by approximately RMB18.7 million during the year ended December 31, 2020 as compared with the previous year. Our return on assets further decreased from approximately 16.1% for the year ended December 31, 2020 to approximately 13.5% for the year ended December 31, 2021 mainly due to the increase in total assets by approximately RMB39.6 million or 15.7% from approximately RMB252.7 million as at December 31, 2020 to approximately RMB292.4 million as at December 31, 2021 contributed by the increase in cash and cash equivalents and trade receivables by approximately RMB24.7 million and RMB15.3 million, respectively, mainly generated by our operating activities during the year ended December 31, 2021 as compared with the previous year.

Interest coverage ratio

Our interest coverage ratio dropped significantly from approximately 251.3 times for the year ended December 31, 2019 to approximately 72.5 times for the year ended December 31, 2020, attributable to (i) the decrease in operating profit by approximately RMB4.6 million, or 9.4%, from approximately RMB49.0 million for the year ended December 31, 2019 to RMB44.4 million for the year ended December 31, 2020 as mentioned above; and (ii) increase in interest expense by RMB0.4 million or 213.8% due to an interest accretion resulting from the discounting of non-current trade payables. Our interest coverage ratio further dropped from approximately 72.5 times for the year ended December 31, 2020 to approximately 55.6 times for the year ended December 31, 2021 mainly due to the decrease in operating profit by approximately RMB3.4 million or 7.7% from approximately

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RMB44.4 million for the year ended December 31, 2020 to approximately RMB41.0 million for the year ended December 31, 2021 as mentioned above. Our interest coverage ratio increased from approximately 13.2 times for the six months ended June 30, 2021 to approximately 46.9 times for the six months ended June 30, 2022 mainly due to the increase in operating profit by approximately RMB18.3 million or 366.0% from approximately RMB5.0 million for the six months ended June 30, 2021 to approximately RMB23.3 million for the six months ended June 30, 2022.

Current ratio

Our current ratio increased slightly from approximately 1.9 times for the year ended December 31, 2019 to 2.1 times as at December 31, 2020 due to an increase in our cash and cash equivalents by approximately RMB18.7 million, partially offset by (i) the increase in contract liabilities by approximately RMB8.4 million; and (ii) the decrease of trade receivables by approximately RMB7.1 million. Our current ratio decreased from approximately 2.1 times as at December 31, 2020 to approximately 1.4 times as at December 31, 2021 mainly due to increase in a financial liability at fair value through profit or loss by approximately RMB65.6 million as we recognized the Pre-[REDACTED] Convertible Bonds as a current financial liability at fair value through profit or loss during the year ended December 31, 2021. Our current ratio remained stable at approximately 1.5 times as at June 30, 2022 as compared to approximately 1.4 times as at December 31, 2021.

Quick ratio

Our quick ratios for the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022 were the same as our current ratio as we maintained no inventory during the same periods.

Debt-to-equity ratio

Our Group did not have any interest-bearing bank borrowings as at December 31, 2019, 2020 and 2021 and June 30, 2022. Though we recognized the Pre-[REDACTED] Convertible Bonds as a financial liability at fair value through profit or loss of approximately RMB65.6 million and RMB67.0 million as at December 31, 2021 and June 30, 2022, respectively, we had sufficient cash and cash equivalents of approximately RMB188.4 million and RMB188.5 million as at December 31, 2021 and June 30, 2022, respectively, to cover the debt position. Therefore, as we did not record any net debt during the Track Record Period, the debt-to-equity ratio is not applicable to us for the relevant periods.

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WORKING CAPITAL

We intend to continue to finance our working capital with cash generated from our operations, our existing cash and bank balances, the [REDACTED] from the [REDACTED] and other possible equity and debt financings raised from capital markets from time to time as and when appropriate. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our game portfolio and trying to reach more players in the PRC and overseas markets.

During the Track Record Period and up to the Latest Practicable Date, we have financed our operations primarily through cash generated by operating activities as well as our existing cash and bank balances comprising the [REDACTED] from the Pre-[REDACTED] Convertible Bonds subscribed by Garena Ventures.

Taking into account the financial resources available to us, including cash and cash equivalents, cash flows from operations, and the estimated [REDACTED] of the [REDACTED], our Directors are of the opinion that we have sufficient working capital for our requirements for at least the next 12 months from the date of this document.

INDEBTEDNESS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Indebtedness

Our indebtedness consisted primarily of lease liabilities and financial liability at fair value through profit or loss. As of July 31, 2022, being the latest practicable date for the purpose of the indebtedness statement below, we had approximately RMB81.1 million in indebtedness which comprised current lease liabilities of approximately RMB6.7 million and non-current lease liabilities of approximately RMB7.4 million as well as financial liability at fair value through profit or loss of approximately RMB67.0 million.

Our Directors confirmed that there is no material change in our indebtedness position since June 30, 2022 and up to July 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document.

Contingent Liabilities

As of July 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, we did not have any contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. Our Directors have confirmed that there has not been any change in our contingent liabilities since June 30, 2022. Except as stated above including the Pre-[REDACTED] Convertible Bonds, as of July 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, we did not have any other loan issued and outstanding or any loan agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits (other than normal trade-related bills), debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

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Our Directors confirm that as of July 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, there was no covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to July 31, 2022. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to July 31, 2022.

Pre-[REDACTED] Convertible Bonds

On June 16, 2021, our Company entered into the Pre-[REDACTED] CB Subscription Agreement with, among others, Garena Ventures, pursuant to which Garena Ventures agreed to subscribe for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$77,112,000 and the issuance of the Pre-[REDACTED] Convertible Bonds by our Company to Garena Ventures was completed on June 21, 2021. On May 31, 2022, our Company and Garena Ventures executed a supplemental deed to extend the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023.

Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued [REDACTED] Shares, representing approximately 8.00% of the issued share capital of our Company immediately upon [REDACTED] (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme and assuming that there is no adjustment to the conversion price).

The Pre-[REDACTED] Convertible Bonds are not interest bearing if the conversion takes place before the Maturity Date. Otherwise, the Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum (on the basis of a 365-day year and the actual number of days elapsed), commencing on the issuance date of the Pre-[REDACTED] Convertible Bonds and until the full payment of the outstanding principal amount and any accrued and unpaid interest payable at maturity or redemption of the Pre-[REDACTED] Convertible Bonds. The Pre-[REDACTED] Convertible Bonds are redeemable at the option of the bondholders at the amount equal to the aggregate of the outstanding principal amount of and any accrued and unpaid interest on the Pre-[REDACTED] Convertible Bonds to be redeemed if (i) it is expected that our Company will not be [REDACTED] on the Stock Exchange or other reputable stock exchange on or before the Maturity Date; or (ii) there is any occurrence of the Change of Control. Therefore, in the event of any redemption of the Pre-[REDACTED] Convertible Bonds, our cash flow and cash position would be reduced by such principal amount and interest accrued and unpaid. For further details of the terms of the Pre-[REDACTED] Convertible Bonds, including terms relating to interest rate, the Maturity Date, redemption

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and conversion, please see the sections headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription” and “Risk Factors — Risks Relating to the [REDACTED] — The shareholding percentages of the existing Shareholders will be diluted following the conversion of Shares prior to the [REDACTED]” of this document.

Off-Balance Sheet Commitments and Arrangements

As of July 31, 2022, being the latest practicable date for the purpose of the indebtedness statement in this document, we had not entered into any off-balance sheet transactions.

CAPITAL COMMITMENTS

Capital expenditures contracted for at the end of the year but not yet recognized as liabilities is as follows:

	As of December 31,			As at June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Intangible asset	—	3,306	10,830	4,100

Our capital commitments primarily consist of purchase of intangible assets. The intangible assets as of December 31, 2020 represents the outstanding commitment relating to license fees due to FIFPro for *Football Champion (最佳11人 — 冠軍球會)* under the IP licensing agreement we entered into in April 2020. Our capital commitments increased by approximately RMB7.5 million as at December 31, 2021 as compared with 2020 as we entered into IP licensing agreement with FIFPro for the launch of *Total Football (最佳球會)* and obtained new IP right licenses from Borussia Dortmund during the year of 2021. Our capital commitments decreased to approximately RMB4.1 million as at June 30, 2022 due to the payments we made pursuant to the IP licensing agreement with FIFPro as mentioned above during the six months ended June 30, 2022.

Operating Lease Commitments

The following table sets forth our total commitments for future aggregate minimum lease payments under non-cancellable short-term operating leases as of the dates indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Not later than 1 year	75	57	—	12

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MATERIAL RELATED PARTY TRANSACTIONS

The Directors are of the view that the following parties were related parties that had transaction or balances with our Group during the Track Record Period:

Name of related party	Relationship with our Group
Mr. Jia Xiaodong	A substantial shareholder and executive Director of our Company
Mr. Huang Xiang	A substantial shareholder and executive Director of our Company
Mr. Li Xin	A shareholder and executive Director of our Company
Mr. Guo Yucheng	A senior management member of our Company
Mr. Zhao Xin	A senior management member of our Company
Mr. Zeng Ke	A senior management member of our Company
Mr. Chu Kai Chi	A senior management member of our Company

For more details about our related party transactions during the Track Record Period, please see Note 31 of Appendix I to this document.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. We regularly monitor our exposure to these risks and seek to minimize potential adverse effects on our Group’s financial performance. Risk management is carried out by our senior management.

Foreign Exchange Risk

Our Group’s foreign currency transactions are mainly denominated in US\$, EUR and HK\$. The majority of assets and liabilities are denominated in RMB, US\$, EUR and HK\$ and there are no significant assets and liabilities denominated in other currencies. Our Group is subject to foreign exchange rate risk arising from future commercial transactions and recognized assets and liabilities denominating in a currency other than RMB, which is the functional currency of the major operating companies within our Group. Our Group did not hedge our foreign currency exposure during the Track Record Period.

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Price risk

Our Group’s exposure to equity price risk arises from its investments in wealth management products classified as financial assets at fair value through profit or loss. As at December 31, 2020, if the market bid prices of the investments had been 10% higher/lower, with all other variables held constant, our Group’s post-tax income for the year would increase/decrease by approximately RMB100,000. A 10% change is used when reporting the price risk internally to our management. As at December 31, 2019 and 2021 and June 30, 2022, our Group was not exposed to price risk as we maintained no financial asset at fair value through profit or loss.

To manage our price risk arising from such investments, our management constantly reviews the portfolio of investments and maintains our Group’s exposures to price risk within an acceptable level.

Cash flow and fair value interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments at variable rates expose our Group to cash flow interest rate risk. Financial instruments at fixed rate expose us to fair value interest rate risk. As we have no significant interest-bearing assets or liabilities other than deposits placed with banks and the Pre-[REDACTED] Convertible Bonds, our income and operating cash flows are substantially independent of changes in market interest rates. Please see Note 3.1(a)(iii) of the Accountant’s Report in Appendix I to this document for more information.

Credit risk

Credit risk arises from short-term bank deposits, cash and cash equivalents, contractual cash flows of debt instruments carried at amortized cost and financial assets measured at fair value through profit or loss.

As at December 31, 2019, 2020 and 2021, and June 30, 2022, our Group’s cash and bank balances were denominated in the following currencies:

	As at December 31,			As at
	2019	2020	2021	June 30, 2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
RMB	25,848	87,996	152,758	167,083
US\$	114,946	67,398	33,026	18,351
HK\$	4,324	8,410	2,709	3,059
Others	4	4	—	—
	<u>145,122</u>	<u>163,808</u>	<u>188,493</u>	<u>188,493</u>

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Our funds amounting to approximately RMB25.8 million, RMB38.0 million, RMB29.8 million and RMB28.7 million as at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, are kept in the bank accounts with banks in the PRC where the remittance of funds is subject to foreign exchange control.

The carrying amounts of short-term bank deposits, cash and cash equivalents and contractual cash flows of debt instruments carried at amortised cost and financial assets measured at fair value through profit or loss represent our Group’s maximum exposure to credit risk in relation to financial assets.

Credit risk is managed on a group basis. To manage our credit risk, we mainly place our deposits with banks and financial assets at fair value through profit or loss with reputable financial institutions.

For trade receivables, our management make periodic collective assessments as well as individual assessment on the recoverability of the receivables based on the historical settlement records and past experience. Trade receivables at the end of each reporting period were due from the third-party Platforms and third-party publishers. If the strategic relationship with the third-party Platforms and third-party publishers are terminated or scaled-back; or if the third-party Platforms and third-party publishers alter the co-operative arrangements; or if they experience financial difficulties in paying our Group, our corresponding trade receivables might be adversely affected in terms of recoverability.

To manage this risk, we maintain frequent communications with third-party Platforms and third-party publishers to ensure effective credit control. In view of the history of cooperation with the third-party Platforms and third-party publishers and the sound collection history of receivables due from the majority of them, our Directors believe that the credit risk inherent in our Group’s outstanding trade receivable balances due from the third-party Platforms and third-party publishers is low. Please see Note 3.1(b) of the Accountant’s Report in Appendix I to this document for more information on our credit risk.

Liquidity Risk

Our Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, our Group’s finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents. Please see note 3.1(c) of the Accountant’s Report in Appendix I to this document.

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Fair Value Estimation

We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: The fair value of financial instruments that is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: The fair value of financial instruments that is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: The fair value of financial instruments that is based on inputs for asset or liability not based on observable market data.

During the Track Record Period, our Group’s financial liabilities were measured at fair value using level 3 inputs and our Group’s financial assets were measured at fair value using level 2 inputs. Please see Note 3.3(a) of the Accountant’s Report in Appendix I to this document for more information.

DIVIDENDS

Under the Articles of Association, our Company may declare dividends in any currency to be paid to the shareholders but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provides that dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Act. For the year ended December 31, 2020, our Group declared and approved dividends amounting to approximately RMB20.0 million, which was settled in full during the same year. For the year ended December 31, 2021, our Group declared and approved dividends of RMB80.0 million, which was settled in full during the same year.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require a foreign-invested enterprise to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

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The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend. Our historical dividend distribution record in the past may not be used as reference or basis to determine the level of dividends that may be declared or paid by our Company in the future, and there is no assurance that dividends of any amount will be declared or be distributed in any year. Currently we do not have a formal dividend policy or a fixed dividend distribution ratio.

DISTRIBUTABLE RESERVES

As of June 30, 2022, our Company did not have any distributable reserves.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] and other fees incurred in connection with the [REDACTED] and the [REDACTED]. We estimate that our [REDACTED] expenses (including [REDACTED]) will be approximately RMB[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per share, being the mid-point of the indicative [REDACTED] range), of which approximately RMB[REDACTED] is directly attributable to the issue of the Shares to the public and to be capitalized, and approximately RMB[REDACTED] has been or is expected to be expensed in our consolidated statements of comprehensive income of which approximately RMB[REDACTED] million, RMB[REDACTED] million, RMB[REDACTED] million and RMB[REDACTED] million were charged for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. An additional amount of approximately RMB[REDACTED] million is expected to be recognized in our combined statements of comprehensive income for year ending December 31, 2022 upon [REDACTED].

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the [REDACTED]. The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Company is set out here to illustrate the effect of the [REDACTED] on our net tangible assets attributable to the shareholders of our Company as of June 30, 2022, as if the [REDACTED] had taken place on June 30, 2022, and is based on the audited net assets of our Company derived from the financial statement in the Accountant’s Report in Appendix I to this document, and adjusted as described below.

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	Audited consolidated net tangible assets attributable to owners of our Company as of June 30, 2022 ⁽¹⁾ (RMB'000)	Estimated [REDACTED] from the [REDACTED] ⁽²⁾ (RMB'000)	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company as of June 30, 2022 (RMB'000)	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾ (RMB)	(HK\$)
Based on the [REDACTED] of HK\$[REDACTED] per Share (being the lowest)	[116,665]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per Share (being the highest)	[116,665]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of our Company as at June 30, 2022 is extracted from the Accountant’s Report as set out in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to equity holders of our Company as at June 30, 2022 of approximately RMB[127.5] million with an adjustment for the intangible assets as at June 30, 2022 of approximately RMB[10.8] million.
- (2) The estimated [REDACTED] to be received by our Company from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, respectively, after deduction of the [REDACTED] and other related expenses payable by our Company, and takes no account of any Shares which may be issued under the Share Option Scheme or any Shares which may be issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed “Share Capital” in this document.
- (3) Our Company issued convertible bonds (the “Pre-[REDACTED] Convertible Bonds”) to Garena Ventures Private Limited (“Garena Ventures”) in the principal amount of HK\$77,112,000 (equivalent to RMB64,163,000) and a conversion price of HK\$[REDACTED] per share (“Conversion Price”, which approximates to the mid-point of the indicative [REDACTED] range) on June 21, 2021. In the event the final [REDACTED] is less than the Conversion Price, automatic conversion will not be triggered and Garena Ventures may elect to redeem, convert all or part of the outstanding principal amount of the Pre-[REDACTED] Convertible Bonds at the Conversion Price prior to or after the [REDACTED] but in any event prior to the Maturity Date (being June 6, 2023).

The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and the [REDACTED] has been completed on June 30, 2022 without taking into account any Shares to be issued pursuant to the conversion or redemption of Pre-[REDACTED] Convertible Bonds issued on June 21, 2021 in the section headed “History, Reorganization and Corporate Structure”, any Shares which may be issued under the Share Option Scheme or any Shares which may be issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed “Share Capital” in this document. Any Shares to be issued upon full or partial conversion or redemption of the Pre-[REDACTED] Convertible Bonds was not considered since the [REDACTED] has yet to be determined at the date of this Document.

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- (4) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at rate of RMB[0.8552] to HK\$[1]. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to June 30, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, since June 30, 2022 and up to the date of this document, there has been no material adverse change in our financial or trading position and no event which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.

RECENT DEVELOPMENT

On June 16, 2021, our Company entered into the Pre-[REDACTED] CB Subscription Agreement with, amongst others, Garena Ventures, pursuant to which Garena Ventures agreed to subscribe for the Pre-[REDACTED] Convertible Bonds in the principal amount of HK\$77,112,000 and an initial conversion price of HK\$[REDACTED] per Share subject to adjustment. The issuance of the Pre-[REDACTED] Convertible Bonds by our Company to Garena Ventures was completed on June 21, 2021. On May 31, 2022, our Company and Garena Ventures executed a supplemental deed to extend the maturity date of the Pre-[REDACTED] Convertible Bonds from June 6, 2022 to June 6, 2023. Assuming full conversion of the Pre-[REDACTED] Convertible Bonds immediately before the [REDACTED], Garena Ventures will be issued [REDACTED] Shares, representing approximately [REDACTED]% of the issued share capital of our Company immediately upon completion of the [REDACTED] Issue and the [REDACTED] (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme and assuming that there is no adjustment to the conversion price). Garena Ventures is also entitled to a redemption right, exercisable in the manner set out in the terms of the Pre-[REDACTED] Convertible Bonds. The Pre-[REDACTED] Convertible Bonds are not interest bearing if the conversion takes place before the Maturity Date. Otherwise, the Pre-[REDACTED] Convertible Bonds shall bear a simple interest computed at a rate of 5% per annum, payable at maturity or redemption. For further details on the Pre-[REDACTED] Convertible Bonds, please see the section headed “History, Reorganization and Corporate Structure — Pre-[REDACTED] Investments — The Pre-[REDACTED] CB Subscription”. The [REDACTED] from the Pre-[REDACTED] CB Subscription may be used for research and development expenditure for existing and new games of our Company. As at the Latest Practicable Date, approximately RMB62.0 million of the [REDACTED] from the Pre-[REDACTED] CB Subscription had been used for the aforesaid purpose.

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As a mobile sports games developer, publisher and operator, our business and results of operations depend on our ability to effectively deal with the outbreak of health pandemics, natural disasters and other extraordinary events. For example, since the outbreak of COVID-19 pandemic throughout China and other countries and regions, a number of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19 pandemic, including city lockdowns or “stay-at-home” orders, widespread business closures, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global economy and normal business operations across sectors and countries. The COVID-19 pandemic has caused minimal impact on our business up to the Latest Practicable Date in 2022. Based on the unaudited consolidated management accounts of our Group, we recorded an increase in total revenue of approximately 66.9% for the seven months ended July 31, 2022 as compared to the corresponding period in 2021, mainly attributable to the significant growth of revenue generated from *Football Champion* (最佳11人 — 冠軍球會) after its expansions in the overseas markets since the second half of 2021.

In July 2022, we launched our new mobile sports action simulation game, *Total Football* (最佳球會) in the PRC, New Zealand and Australia. *Total Football* (最佳球會) is our first self-developed mobile football action simulation game which incorporates the state of art 3D gameplay scenes and more advanced AI technology to enhance users’ sensational experience in the virtual sports matches by the application of manual steering skills. By virtue of the seamless gameplay with sophisticated action animation, *Total Football* (最佳球會) has been featured and demonstrated on the display of the latest Apple iPad model as of the Latest Practicable Date.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.