The following discussion and our analysis should be read in conjunction with our historical financial information included in the Accountants' Report in Appendix I, together with the accompanying notes. Our consolidated historical financial information have been prepared in accordance with IFRS.

The following discussion and analysis contain 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 but not limited to the sections headed "Risk Factors" and "Business" in this document.

OVERVIEW

We provide AR/VR content and services in China, and in particular, the provision of AR/VR marketing services to advertising customers based on AR/VR interactive content was our largest revenue contributor during the Track Record Period. According to iResearch, we ranked the first in terms of revenue in the AR/VR content and services market in China, amounting to 2.6% of the market share in 2021. We also ranked the first in terms of revenue in the AR/VR services market in China, reaching 13.5% of the market share in 2021. Through accumulation of experiences and know-hows, we have created a business providing a variety of services in connection with AR/VR, mainly including (i) AR/VR marketing services, (ii) AR/VR content, (iii) AR/VR SaaS and (iv) IP business.

AR/VR marketing services business is currently our primary source of revenue. The business model of our AR/VR marketing services business is "*we develop and we help you use*". Working with media platforms and their agents, we primarily provided AR/VR marketing services to our advertising customers based on AR/VR interactive content during the Track Record Period. We charge our customers based on the outcome of the services, such as marketing performance. Leveraging our advantages in technology and media resources, we provide customers with comprehensive AR/VR marketing services, including formulating AR/VR marketing services plans, designing AR/VR interactive content, distributing AR/VR interactive content, and collecting, monitoring and optimizing data and feedback, in order to realize our customers' business goals such as enhancing brand exposure and improving brand awareness.

Utilizing our self-developed AR/VR development engines, our AR/VR content business offers customized content according to the needs of our customers. We provide AR/VR content to customers from various industries, including entertainment, education, culture and tourism, technology, healthcare and automobiles and bring end users a diversified and immersive experience in a virtual world. The business model of our AR/VR content business is "*we develop and you use*". We develop AR/VR content according to the requirements of our customers, which are then utilized by the customers in their businesses and provided to the end users. We generally charge a one-off fee when we provide the content products to our customers.

Leveraging the experiences we accumulated in the AR/VR content and services businesses, we provide standardized solutions on our AR/VR SaaS platform. The business model of our AR/VR SaaS business is "*you develop and you use*". Our AR/VR SaaS platform enables our customers to generate, publish and utilize AR/VR content. We charge our customers for subscribing to our SaaS products or for developing customized SaaS solutions. Our AR/VR SaaS platform provides our customers with a range of online AR/VR interactive content design, development and distribution tools and empowers our customers to create activities that offer experiences such as exhibition, showcase, live-streaming and marketing, with the goal to improve effectively the level and extent of participation of their end users.

Our IP business licenses IP rights to customers to enable them to develop games, cartoons, TV plays, movies and other works. During the Track Record Period, we mainly licensed out IPs we purchased from third parties. We have shifted our focus mainly to use IP resources to support our AR/VR businesses going forward and license IP rights on a case-by-case basis to meet specific customer demands.

We experienced significant growth during the Track Record Period. Our revenue increased from RMB250.9 million in 2019 to RMB338.6 million in 2020 and further to RMB595.3 million in 2021, representing a CAGR of 54.0%. Our revenue increased by 65.0% from RMB138.7 million in the three months ended March 31, 2021 to RMB228.9 million in the three months ended March 31, 2022. Our net profit increased from RMB41.9 million in 2019 to RMB60.3 million in 2020 and further to RMB71.7 million in 2021, representing a CAGR of 30.9%. Our net profit increased significantly by 315.9% from RMB9.2 million in the three months ended March 31, 2021 to RMB38.2 million in the three months ended March 31, 2022.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on June 24, 2021 as an exempted company with limited liability under the Companies Law. We are an investment holding company. Our consolidated financial information has been prepared in accordance with the IFRS issued by the International Accounting Standards Board. Prior to the incorporation of our Company and the completion of the Reorganization, details of which are set out in the section headed "History, Development and Corporate Structure" in this document, the main operating activities of our Group were carried out by Ophyer Technology and its subsidiaries, which were established in the PRC. In preparation for the **[REDACTED]**, our Group underwent the Reorganization. Our Group resulting from the Reorganization is regarded as a continuing entity throughout the Track Record Period, regardless of the actual date when they legally form part of a group. Accordingly, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes of equity and consolidated statements of cash flows for the Track Record Period have been prepared to include the results, changes in equity and cash flows of the companies now comprising our Group as if our group structure upon the completion of the Reorganization had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where there is a shorter period. The consolidated statements of financial position of our Group as at December 31, 2019, 2020 and 2021, and March 31, 2022 have been prepared to present the assets and liabilities of the companies now comprising our Group at the carrying amounts shown in the financial statements of our group entities, as if the current group structure upon completion of the Reorganization had been in existence at those dates taking into account the respective dates of incorporation or establishment, where applicable.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, some of which are outside of our control. These factors include but are not limited to the following:

General Economic Conditions and Growth of Our Industry

Our business and operating results are impacted by China's overall economic growth, especially the growth of China's AR/VR content and services industries. According to iResearch, the maturity in the hardware technology and the improvement in the infrastructure including 5G and Wi-Fi 6 will drive the development of the AR/VR content and services market in China. With the maturity of AR/VR technology and the popularization of equipment, AR/VR is likely to become a more popular form of content presentation in China. According to iResearch, the market size of China's AR/VR content and services market in terms of revenue increased from RMB1.1 billion in 2017 to RMB21.7 billion in 2021 at a CAGR of 110.2%. The AR/VR marketing services market is a major component of the AR/VR services market in China. Our revenue from AR/VR marketing services, AR/VR content and AR/VR SaaS businesses grew by 40.6% from RMB188.9 million in 2019 to RMB265.7 million in 2020, and further grew by 110.1% to RMB558.3 million in 2021. Our revenue from AR/VR marketing services, AR/VR content and AR/VR SaaS businesses grew by 81.6% from RMB126.0 million in the three months ended March 31, 2021 to RMB228.8 million in the three months ended March 31, 2022. Our revenue from AR/VR content and services businesses grew at a slower pace in 2020, which was mainly due to the COVID-19 outbreak as, to the best knowledge, information and belief of our Directors after having made reasonable enquiries, some of our advertising customers scaled down their budget, spending and marketing investment in the first half of 2020. We have resumed the normal pace of business growth since then and our revenue from AR/VR marketing services, AR/VR content and AR/VR SaaS businesses increased significantly by 110.1% from RMB265.7 million in 2020 to RMB558.3 million in 2021. According to iResearch, China's AR/VR content and services market is growing at a fast pace and with the more prevalent and in-depth applications of AR/VR content and services in different industries and settings, it is expected that the market size of China's AR/VR content and services market in terms of revenue will increase and reach RMB130.2 billion in 2026, at a CAGR of 38.2% from 2022, and become an important driving force to empower the Metaverse.

Expansion of Our Customer Base

As we generate most of our revenue from the provision of AR/VR marketing services and AR/VR content, the customers who use our services and purchase our content are crucial to our results of operations and continued revenue growth. The number of customers using our AR/VR marketing services or purchasing our AR/VR content increased from 29 in 2019 to 44 in 2020, and further to 70 in 2021, mainly as a result of our continuously innovating AR/VR development engines and technologies in response to market trends, thereby increasing our customers' satisfaction and increasing their stickiness to us. We have a wide industry coverage of customers and during the Track Record Period, we provided AR/VR content and services to customers from more than 10 industries, including entertainment, Internet, e-commerce, culture and tourism, business services, education, finance, real estate, automobiles, live-streaming, technology and healthcare.

Continued expansion of our customer base strengthened our brand and reputation within the AR/VR content and services industry, thereby attracting more customers for our products and services and allowing us to optimize our fees. During the Track Record Period, we acquired our customers mainly through our marketing effort. Our distribution and selling expenses increased from RMB5.5 million in 2019 to RMB7.3 million in 2020, and further increased to RMB13.7 million in 2021, mainly attributable to the expansion of our sales force and increased compensation as well as expenses for our marketing campaigns incurred from time to time.

During the Track Record Period, our AR/VR SaaS business also experienced significant growth. We started to generate revenue from our AR/VR SaaS in 2019 and our revenue from AR/VR SaaS amounted to RMB6.5 million in 2019. Our revenue from AR/VR SaaS increased from RMB6.5 million in 2019 to RMB9.2 million in 2020, and further to RMB20.6 million in 2021. Our revenue from AR/VR SaaS increased from RMB2.1 million in the three months ended March 31, 2021 to RMB9.5 million in the three months ended March 31, 2022. During the Track Record Period, the increase in our revenue from the AR/VR SaaS business was mainly attributable to an increase in the number of customized SaaS projects we carried out, an increase in the price range of the customized AR/VR SaaS projects, and the increase in the number of customers that subscribed to our standardized SaaS services. The number of subscribed paying users of our AR/VR SaaS platform increased from nil in 2019 to over 2,200 as of March 31, 2022.

Our Ability to Innovate and Expand Our Product and Service Offerings

We are a technology-driven AR/VR content and services company and we are committed to innovation and R&D investment. We believe our ability to grow our business significantly depends on our ability to continue to enhance technology capabilities and offer better and more powerful technology-enabled solutions and AR/VR interactive content for our customers. We have established a research and development team with 59 members, accounting for approximately 43.1% of our total employees as of the Latest Practicable Date. Approximately 59.3% of our research and development team members have obtained bachelor's degrees or above, and 72.9% of them have over five years of experience in software development or art and animation designs. In 2019, 2020 and 2021, and the three months ended March 31, 2022, our research and development expense amounted to RMB11.4 million, RMB15.0 million, RMB21.7 million and RMB8.2 million, accounting for 4.6%, 4.4%, 3.6% and 3.6% of our revenue in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. Additionally, we constantly seek to expand our product and service offerings through updates and new releases, to enrich our customers' experience and cater to their evolving business needs and requirements. We have made multiple breakthroughs in innovation and expansion of our offerings in AR/VR marketing services and AR/VR content. We have developed a comprehensive suite of AR/VR technologies, including our AR/VR development engines and our AR/VR SaaS platform. For further information, see the paragraphs headed "Business — Our Business — Our Services and Products — AR/VR SaaS" and "Business — Our Technologies and Infrastructure" in this document. We believe our research and development capabilities and innovation provide us with barriers against competition and reinforce our market position. We will continue to make investment in research and development to increase our innovation capabilities, attract more talent, and launch new and innovative products catering to the evolving needs of customers.

Changes to Our Product and Service Mix

Our revenue and profitability are affected by our product and service mix. During the Track Record Period, we generated most of our revenue from AR/VR marketing services and AR/VR content businesses, which accounted for 72.7%, 75.7%, 90.3% and 95.8% of our total revenue in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. Our revenue from AR/VR marketing services and AR/VR content increased from RMB182.4 million in 2019 to RMB256.5 million in 2020, and further to RMB537.7 million in 2021, notwithstanding the slowdown in business in the first half of 2020 because of the outbreak of COVID-19. Our revenue from AR/VR marketing services and AR/VR content increased from RMB123.9 million in the three months ended March 31, 2021 to RMB219.3 million in the three months ended March 31, 2022.

During this period, we have also been diversifying our product portfolio by generating income from our AR/VR SaaS business. Our revenue generated from each of these services or products may fluctuate for a number of reasons, such as demand of customers and market conditions. For synergy effect among our various business segments, see the paragraph headed "Business — Our Competitive Advantages — Strong synergy effect among our various business segments" in this document.

The gross margin of different products and services may also vary, and as a result, changes in our product mix affect our overall gross margin. Our overall gross margin may vary depending on our product and service mix, with our AR/VR SaaS business having the highest margin, followed by AR/VR content, and AR/VR marketing services, IP and other businesses typically having lower gross margins. Particularly, the gross margin of our AR/VR SaaS business was 50.5%, 52.9%, 54.7% and 57.9%, in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. The gross margin of our AR/VR content was 47.9%, 47.2%, 46.2% and 55.3%, in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. The gross margin of our AR/VR marketing services was 21.2%, 19.4%, 21.7% and 23.0%, in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively.

See the paragraph headed "Description of Major Components of Our Results of Operations — Gross Profit and Gross Margin" in this section for more details on our gross margins. We believe our changing product mix will continue to have an impact on our revenue and profitability.

Our Relationship with Business Partners and Suppliers

Our major suppliers are primarily (i) agents of media platforms which provide traffic and (ii) companies which offer subcontracting and development services or provide content materials or IPs. Our ability to grow our business is, to a large extent, dependent on our relationship with agents of media platforms and media platforms, which is crucial to our ability to serve our customers' evolving needs to market their products and services. Our largest component of cost of revenue is traffic acquisition costs that we pay to our suppliers. In 2019, 2020 and 2021, and the three months ended March 31, 2022, our traffic acquisition costs amounted to RMB115.3 million, RMB138.4 million, RMB311.5 million and RMB126.7 million, respectively, which accounted for 65.6%, 59.2%, 74.2% and 81.5% of our total cost of revenue, respectively. The increase in our traffic acquisition costs was driven by the growth of our AR/VR marketing services business. Our traffic acquisition costs are also affected by the charge rate of our suppliers, which may fluctuate based on the popularity of, and demand for, the advertising traffic provided by our suppliers. We expect our traffic acquisition costs would increase in the future as we further grow our businesses. If we lose access to any one of our existing major suppliers and are not able to source any alternative suppliers in a timely manner, or at all, our results of operations may be materially and adversely affected.

Competition

China's AR/VR content and services market is highly fragmented with over 5,000 players in the market. We are in direct competition with other AR/VR content and services providers in China. We believe that we compete with our competitors on a number of factors, primarily including technology, innovation, quality of services, business operation, price, financial resources, brand recognition and reputation. We believe that our business is distinct from our competitors in terms of multifaceted AR/VR technologies and AR/VR interactive content production capabilities. Our ability to successfully compete against our competitors affects our ability to grow our business and our results of operations. To distinguish ourselves from our competitors, we plan to further improve our service and product offerings and strengthen our technology capabilities. For more details about the industry and markets that we operate in, see the section headed "Industry Overview" in this document.

Seasonality

Our business is subject to seasonal fluctuations. Our revenue from the first quarter of each calendar year generally contributes a smaller portion of our total revenue in the year, primarily due to the closure of businesses at the beginning of the calendar year in which the Chinese New Year holidays fall, resulting in less demand from our customers.

Tax

Our income tax expense was RMB6.5 million, RMB10.1 million, RMB15.4 million and RMB10.6 million in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. Our effective income tax rate, which is calculated by dividing income tax expense by profit before tax for the same period, was approximately 13.4%, 14.4%, 17.7% and 21.8% for the same periods, respectively. Our relatively low effective income tax rates during these periods were primarily because Ophyer Technology was qualified as a high and new technology enterprise and enjoyed lower income tax rate of 15% during the Track Record Period. Two of our PRC subsidiaries, Shixin Network in Horgos and Kashi Fanxing in Kashi, were exempted from income tax from their respective dates of establishment to December 31, 2020. In addition, certain of our PRC subsidiaries have been approved as small low-profit enterprises and were subject to a preferential income tax rate of 5% or 10% during the Track Record Period. Our income tax expense and income tax rate, and in turn, our profit for the year, will continue to be affected by the availability of preferential tax treatments. See the paragraph headed "Risk Factors — Risks Relating to Our Business and Industry — Any discontinuation, reduction or delay of any preferential tax treatments or government grants that may be available to us in the future could materially and adversely affect our business, financial condition and results of operations" in this document.

IMPACT OF COVID-19 ON OUR OPERATIONS

During the outbreak of COVID-19, as China adopted various social distancing initiatives in response to the pandemic, many people turned to online social and shopping activities in lieu of physical gatherings. Consequently, there was an increase in demand for online business and AR/VR marketing services. However, this increase in demand was affected by a few negative factors, such as reduced business activity and income as a result of lock-down and mandatory or voluntary social distancing, and reduced consumption as a result of general concerns and uncertainty about the pandemic and the economy.

Our results of operations were affected by the following specific factors. Our revenue from AR/VR content and services businesses grew at a slower pace in 2020, which was mainly due to the COVID-19 outbreak as, to the best knowledge, information and belief of our Directors after having made reasonable enquiries, some of our advertising customers scaled down their budget, spending and marketing investment in the first half of 2020. However, we expect the COVID-19 pandemic may further drive the demand for and utilization of AR/VR content and services in the long term as under the impact of the COVID-19 pandemic, a large number of offline activities have been transferred online and users have more practical experience in living on and working through the Internet. Users forming habits of transferring their daily activities online will provide a good user base for the popularization of AR/VR content and services. Notwithstanding the COVID-19 pandemic, our revenue increased by 34.9% from RMB250.9 million in 2019 to RMB338.6 million in 2020.

There remains significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic. Should China experience further outbreak, China may again take emergency measures to combat it, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact businesses of our customers and in turn may affect our results of operations. See the paragraph headed "Risk Factors — Risks Relating to our Business and Industry — We face risks related to natural disasters, health epidemics, and other public safety concerns" in this document.

SIGNIFICANT ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATES

Our significant accounting policies and key sources of estimates, which are important for an understanding of our financial condition and results of operations, are set forth in Note 4 and Note 5 to the Accountants' Report set out in Appendix I to this document. In the application of our accounting policies, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. We set forth below those accounting policies and estimates that we believe involve the most significant estimation used in the preparation of our historical financial information.

Revenue from contracts with customers

We recognize revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met: (i) the customer simultaneously receives and consumes the benefits provided by our performance as we perform; (ii) our performance creates or enhances an asset that the customer controls as we perform; or (iii) our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct goods or service.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

There are no variable consideration and significant financing component for our revenue from contracts with customers.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict our performance in transferring control of goods or services.

AR/VR marketing services business

We develop AR/VR interactive content to provide solutions to customers, including the design and placement of advertisements, based on such AR/VR content. We provide customers with comprehensive AR/VR marketing services, including formulating AR/VR service plans, designing AR/VR interactive content, distributing AR/VR interactive content, and collecting, monitoring and optimizing marketing data and feedback, in order to realize the customers' targets such as enhancing brand exposure and improving brand awareness.

We recognize revenue at a point in time when specific services are provided based on the results of the placement of services in relevant platforms which are confirmed with the customers monthly.

AR/VR content business

Utilizing our self-developed AR/VR development engines, our AR/VR content business offers customized content according to the needs of our customers. We provide AR/VR content to customers and bring the end users diversified and immersive experiences in a virtual world.

Revenue is recognized at a point in time when control over the customized content has been transferred to the customer at a point in time.

AR/VR SaaS services

Leveraging the experiences we accumulated in AR/VR service and AR/VR content businesses, we provide standardized solutions on the AR/VR SaaS platform. The AR/VR SaaS platform enables customers to generate, publish and utilize AR/VR content.

We charge customers for developing customized SaaS content. Revenue from developing customized content is recognized at a point in time when control over the customized content has been transferred to the customer.

Other SaaS services are provided on a subscription basis, and a monthly or annual subscription fee is charged to customers. Revenue generated from subscription fees is recognized over the subscription period on a straight-line basis.

IPs

Revenue from sale of IPs is recognized when the control of the certain adaptation rights of IPs is transferred to a customer. Control of the rights is transferred to the customers, when an agreement has been signed with a customer and the required documents have been delivered.

Others

We also generate revenues from text message services, promotion services, technical services, artist endorsement services, and games and games related business. We recognize revenue at a point in time when specific services are provided or the customized product is passed to the customer.

Key Sources of Estimation Uncertainty

Fair value of shares with preferred rights and preferred shares

We have issued a series of shares with preferred rights and preferred shares during the Track Record Period. We recorded these financial instruments as financial liabilities at FVTPL for which no quoted prices in an active market exist. The fair value of the financial instruments is established by using valuation techniques, which include discounted cash flow and option pricing model involving various parameters and inputs. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. However, it should be noted that some inputs, such as the growth rate in our cash flow projections, the discount rates, time to liquidation, risk-free interest rate, expected volatility value, dividend yield and possibilities under different scenarios of qualified **[REDACTED]**, redemption, and liquidation, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the financial liabilities at FVTPL.

Provision of expected credit loss ("ECL") for trade receivables

We recognize lifetime ECL for trade receivables, using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at end of the reporting period except that significant balances are assessed individually. The debtors with significant balances are assessed individually by reference to aging, past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position. Estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As of January 1, 2019, December 31, 2019, 2020 and 2021, and March 31, 2022, the carrying amounts of trade receivables were RMB106.5 million, RMB96.7 million, RMB139.8 million, RMB161.9 million and RMB197.9 million after deducting allowance for doubtful debts of RMB2.9 million, RMB5.5 million, RMB7.9 million, RMB7.0 million and RMB12.6 million, respectively.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth a summary of our consolidated statements of comprehensive income, with line items in absolute amounts and as percentages of our revenue for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Revenue	250,942	100.0	338,598	100.0	595,290	100.0	138,749	100.0	228,869	100.0
Cost of revenue	(175,617)	(70.0)	(233,894)	(69.1)	(419,774)	(70.5)	(101,463)	(73.1)	(155,586)	(68.0)
Gross Profit	75,325	30.0	104,704	30.9	175,516	29.5	37,286	26.9	73,283	32.0
Other income	329	0.1	1,723	0.5	3,130	0.5	192	0.1	595	0.3
Fair value changes on financial liabilities designated as at FVTPL	—	—	(1,357)	(0.4)	(21,075)	(3.5)	(8,700)	(6.3)	—	—
Other gains and losses	(128)	(0.1)	273	0.1	447	0.1	(819)	(0.6)	(20)	(0.0)
Impairment losses under ECL model, net of reversal	(3,396)	(1.3)	(2,115)	(0.6)	864	0.1	(2,716)	(1.9)	(5,625)	(2.5)
Distribution and selling expenses	(5,457)	(2.2)	(7,257)	(2.1)	(13,682)	(2.3)	(3,756)	(2.7)	(3,132)	(1.4)
Administrative expenses	(5,846)	(2.3)	(8,634)	(2.5)	(21,711)	(3.6)	(2,364)	(1.7)	(5,578)	(2.4)
Research and development expenses	(11,425)	(4.6)	(15,046)	(4.4)	(21,703)	(3.6)	(6,649)	(4.8)	(8,152)	(3.6)
[REDACTED]	**[REDACTED]**	**[REDACTED]—**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Finance costs	(1,056)	(0.3)	(1,920)	(0.7)	(2,357)	(0.4)	(503)	(0.4)	(552)	(0.2)
Profit before tax	48,346	19.3	70,371	20.8	87,142	14.6	11,971	8.6	48,827	21.3
Income tax expense	(6,467)	(2.6)	(10,119)	(3.0)	(15,423)	(2.6)	(2,785)	(2.0)	(10,622)	(4.6)
Profit and total comprehensive income for the year/period	41,879	16.7	60,252	17.8	71,719	12.0	9,186	6.6	38,205	16.7
Profit and total comprehensive income for the year/period attributable to:										
Owners of the Company	41,879	16.7	58,883	17.4	70,202	11.8	8,640	6.2	38,278	16.7
Non-controlling interests	—	—	1,369	0.4	1,517	0.2	546	0.4	(73)	(0.0)
	41,879	16.7	60,252	17.8	71,719	12.0	9,186	6.6	38,205	16.7

NON-IFRS MEASURE: ADJUSTED NET PROFIT

To supplement our consolidated financial statements presented in accordance with IFRS, we also use non-IFRS measure, namely adjusted net profit, as an additional financial measure, which is not required by or presented in accordance with IFRS. We believe that such non-IFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of certain items. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as it helps our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial conditions as reported under IFRS. Our presentation of non-IFRS measure should not be construed as an implication that our future results will be unaffected by unusual items.

We define adjusted net profit as net profit for the year adjusted by adding fair value changes on financial liabilities designated as at FVTPL and **[REDACTED]**. Our fair value changes on financial liabilities designated as at FVTPL represents gains or losses from fair value changes on the shares with preferred rights and preferred shares designated as at fair value through profit or loss. Fair value changes on financial liabilities designated as at FVTPL are non-cash in nature. As of December 31, 2021, all of our financial liabilities designated as at FVTPL had been converted into equity. The following table sets forth the reconciliation of net profit to adjusted net profit for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2019	2020	2021	2021	2022
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (Unaudited)	*(RMB'000)*
Reconciliation of net profit to adjusted net profit:					
Profit for the year/period	41,879	60,252	71,719	9,186	38,205
Add:					
Fair value changes on financial liabilities designated as at FVTPL	—	1,357	21,075	8,700	—
[REDACTED]	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Non-IFRS measure:					
Adjusted net profit (unaudited)	41,879	61,609	105,081	17,886	40,197

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we generated revenue primarily from the provision of AR/VR marketing services and the sale of AR/VR content. The following table sets forth a breakdown of our revenue by service or product type in absolute amounts and as a percentage of our total revenue for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
AR/VR marketing services	137,103	54.6	141,701	41.9	376,341	63.2	81,275	58.6	165,574	72.3
AR/VR content	45,323	18.1	114,758	33.9	161,395	27.1	42,611	30.7	53,685	23.5
AR/VR SaaS	6,514	2.6	9,238	2.7	20,588	3.5	2,101	1.5	9,522	4.2
IP	30,519	12.2	29,811	8.8	4,472	0.8	4,717	3.4	—	—
Others(Note)	31,483	12.5	43,090	12.7	32,494	5.4	8,045	5.8	88	0.0
Total	250,942	100.0	338,598	100.0	595,290	100.0	138,749	100.0	228,869	100.0

Note: Our other businesses comprise text message services, promotion services, technical services, artist endorsement services, and historically, games and games related business.

AR/VR marketing services

We generate revenue from our AR/VR marketing services business primarily through provision of AR/VR marketing services to our advertising customers based on AR/VR interactive content. During the Track Record Period, our revenue mainly came from advertising customers from various industries, including entertainment, Internet, e-commerce, culture and tourism, business services, education, finance, real estate, automobiles, live-streaming and healthcare. During the Track Record Period, our revenue from the provision of AR/VR marketing services continuously increased primarily due to an increase in the number of advertising customers with respect to our AR/VR marketing services and the number of products we promoted for our advertising customers. As we made the strategic transformation in 2017 and shifted our focus from games and games related businesses to AR/VR marketing services, we devoted resources and built up a dedicated sales team to serve advertising customers and to proactively develop and acquire advertising customers. The number of our advertising customers increased from 19 in 2019 to 23 in 2020, and further to 24 in 2021. The number of our advertising customers also increased from 13 in the three months ended March 31, 2021 to 21 in the three months ended March 31, 2022. The number of products we promoted for our customers increased from 56 in 2019 to 57 in 2020, and further to 133 in 2021. The number of products we promoted for our customers also increased from 55 in the three months ended March 31, 2021 to 93 in the three months ended March 31, 2022. For further details of our revenue recognition policy, see the paragraph "— Significant Accounting Policies and Key Sources of Estimates — Revenue from contracts with customers" in this section.

The following table sets forth a breakdown of our revenue from our AR/VR marketing services business by customer industry in absolute amounts and as a percentage of our total revenue from the AR/VR marketing services business for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Entertainment	19,972	14.6	40,095	28.3	204,943	54.5	42,409	52.2	74,620	45.1
Internet	30,414	22.2	53,462	37.7	76,120	20.2	22,156	27.3	38,772	23.4
Culture and tourism	14,934	10.9	13,693	9.7	33,788	9.0	6,566	8.1	25,828	15.6
E-commerce	26,591	19.4	4,854	3.4	20,907	5.6	4,106	5.0	14,777	8.9
Finance	3,668	2.7	5,378	3.8	16,091	4.3	1,785	2.2	517	0.3
Education	14,806	10.8	740	0.5	8,306	2.2	4,252	5.2	—	—
Automobiles	3,166	2.3	1,613	1.1	7,420	2.0	—	—	3,350	2.0
Live-streaming	—	—	2,632	1.9	4,224	1.1	1	0.0	504	0.3
Business services	16,098	11.7	16,327	11.5	2,242	0.6	—	—	864	0.6
Healthcare	1,886	1.4	—	—	2,301	0.6	—	—	826	0.5
Real estate	5,570	4.1	2,908	2.1	—	—	—	—	5,516	3.3
Total	**137,103**	**100.0**	**141,701**	**100.0**	**376,341**	**100.0**	**81,275**	**100.0**	**165,574**	**100.0**

AR/VR content

We generate revenue from our AR/VR content business primarily through offering customized content to customers. During the Track Record Period, our revenue from the AR/VR content business increased primarily due to the expansion of our customer base and the increase in the number of AR/VR content projects we carried out. During the Track Record Period, we provided AR/VR content to customers from various industries, including entertainment, education, culture and tourism, technology, healthcare and automobiles. The number of customers of our AR/VR content business increased from 10 in 2019 to 21 in 2020, and further to 46 in 2021. The number of customers of our AR/VR content business also increased from 11 in the three months ended March 31, 2021 to 15 in the three months ended March 31, 2022. The number of AR/VR content projects we carried out increased from 35 in 2019 to 41 in 2020, and further to 95 in 2021, and also increased from 22 in the three months ended March 31, 2021 to 30 in the three months ended

March 31, 2022. For further details on our revenue recognition policy, see the paragraph headed "— Significant Accounting Policies and Key Sources of Estimates — Revenue from contracts with customers" in this section.

The following table sets forth a breakdown of our revenue from our AR/VR content business by customer industry in absolute amounts and as a percentage of our total revenue from the AR/VR content business for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Entertainment	15,094	33.3	60,651	52.9	125,627	77.8	30,311	71.1	33,094	61.7
Education	12,349	27.3	33,165	28.9	24,151	15.0	6,651	15.6	12,152	22.6
Technology	5,557	12.2	1,962	1.7	7,286	4.5	2,566	6.0	4,752	8.9
Culture and tourism	12,323	27.2	13,555	11.8	4,081	2.5	2,894	6.8	1,090	2.0
Healthcare	—	—	5,425	4.7	61	0.1	—	—	—	—
Automobiles	—	—	—	—	189	0.1	189	0.5	2,597	4.8
Total	45,323	100.0	114,758	100.0	161,395	100.0	42,611	100.0	53,685	100.0

The number of industry we covered for our AR/VR content business steadily increased from four in 2019 to five in 2020, and further to six in 2021. Our revenue from the entertainment industry increased significantly from RMB15.1 million in 2019 to RMB60.7 million in 2020, and further increased to RMB125.6 million in 2021, and increased from RMB30.3 million in the three months ended March 31, 2021 to RMB33.1 million in the three months ended March 31, 2022, mainly because our major customer from the entertainment industry increased spending with us.

AR/VR SaaS

We generate revenue from our AR/VR SaaS business primarily through the provision of customized AR/VR SaaS products and customers' subscriptions to our standardized AR/VR SaaS services. We introduced our AR/VR SaaS platform in 2017. Before 2019, we offered AR/VR SaaS services for free to support traffic for our AR/VR marketing services as our AR/VR SaaS platform provides tools for media platforms and their agents. We started to charge fees in 2019 and gradually focused on our AR/VR SaaS business in 2020, which resulted in a significant growth in revenue from AR/VR SaaS. Our revenue from the AR/VR SaaS business increased from RMB6.5 million in 2019 to RMB9.2 million in 2020, and further to RMB20.6 million in 2021, and also increased from RMB2.1 million in the three months ended March 31, 2021 to RMB9.5 million in the three months ended March 31, 2022. During the Track Record Period, our revenue from our

AR/VR SaaS business increased primarily due to (i) an increase in the number of customized AR/VR SaaS projects we carried out, (ii) an increase in the price range of the customized AR/VR SaaS projects, and (iii) an increase in the number of customers who subscribed to our standardized AR/VR SaaS services. The number of customized projects we carried out increased from 204 in 2019 to 554 in 2020. While the number of customized projects we carried out decreased from 554 in 2020 to 142 in 2021, we generally charged higher prices for our customized AR/VR SaaS projects in 2021 compared to 2020. The number of customized projects we carried out increased from 33 in the three months ended March 31, 2021 to 77 in the three months ended March 31, 2022. The number of subscribed paying users of our AR/VR SaaS platform increased from nil as of December 31, 2019 to over 2,200 as of March 31, 2022. For further details on our revenue recognition policy, see the paragraph headed "— Significant Accounting Policies and Key Sources of Estimates — Revenue from contracts with customers" in this section.

IP

We generate revenue from our IP business primarily through licensing out IPs we purchased from third parties. Our revenue from IP business fluctuated with the number of IPs we licensed out during the Track Record Period. Our revenue from IP business decreased slightly from RMB30.5 million in 2019 to RMB29.8 million in 2020, and further decreased to RMB4.5 million in 2021, primarily as we shifted our business focus mainly to use IPs to support our AR/VR businesses going forward rather than licensing out IPs. We did not generate any revenue from IP business in the three months ended March 31, 2022. For further details on our revenue recognition policy, see the paragraph headed "— Significant Accounting Policies and Key Sources of Estimates — Revenue from contracts with customers" in this section.

Others

During the Track Record Period, our revenue from our other businesses were from games and games related business, technical services, promotion services, text message services and artist endorsement services. The following table sets forth a breakdown of our revenue from our other businesses in absolute amounts and as a percentage of our total revenue from our other businesses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Games and games related business *(Note)*	9,038	28.7	—	—	—	—	—	—	—	—
Technical services	14,686	46.7	5,210	12.1	640	2.0	267	3.3	—	—
Promotion services	7,759	24.6	25,613	59.4	6,066	18.6	2,615	32.5	—	—
Text message services	—	—	10,384	24.1	25,788	79.4	5,163	64.2	88	100.0
Artist endorsement services	—	—	1,883	4.4	—	—	—	—	—	—
Total	31,483	100.0	43,090	100.0	32,494	100.0	8,045	100.0	88	100.0

Note: The winding-down of our games and games related business in 2019 did not constitute discontinued operations as according to IFRS 5, a "discontinued operation" is defined as a component of an entity that either has been disposed of or is classified as held for sale and:

a. represents a separate major line of business or geographical area of operations;

b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

c. is a subsidiary acquired exclusively with a view to resale.

When assessing whether a component of an entity represents a separate major line of business, a company should consider its contribution in the financial year of completion of winding down. We completed the winding-down of our games and games-related business in 2019. For the year ended December 31, 2019, the revenue and net profit of the games and games related business were RMB9.0 million and RMB4.1 million, respectively, representing 3.6% and 9.8% of our revenue and net profit. Hence, according to IFRS 5, our games and games related business does not represent a separate major line of business or geographical area of operations of our Group and should not be presented as discontinued operation in accordance with IFRS 5.

Furthermore, according to IFRS 5, to meet the definition of a discontinued operation under IFRS 5, our games and games-related business must be "a component of our Group". A "component of an entity" is defined under IFRS 5:31 as operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the entity.

The assets (including IPs and staff) of our Group used to be shared by our games and games-related business with our AR/VR content and AR/VR marketing services businesses. Hence, our management considered that the operations (including the staff and assets) and cash flows of our games and games-related business cannot be clearly distinguished operationally and for financial reporting purposes from the rest of our Group.

Our revenue from other businesses amounted to RMB31.5 million in 2019, primarily from our technical services, games and games related services and promotion services. Our revenue from other businesses amounted to RMB43.1 million in 2020, primarily from our promotion services, text message services and technical services. Promotion services and text message services are non-AR/VR related marketing services provided by us. Our revenue from other businesses amounted to RMB32.5 million in 2021, primarily from our text message services and promotion services. Our revenue from other businesses amounted to RMB88,000 in the three months ended March 31, 2022, all of which was from our text message services. For further details on our revenue recognition policy, see the paragraph headed "— Significant Accounting Policies and Key Sources of Estimates — Revenue from contracts with customers" in this section.

Cost of Revenue

Our cost of revenue primarily consists of (i) traffic acquisition costs for AR/VR marketing services, promotion services and text message services, which mainly represent costs we pay to media platforms or their agents to purchase advertising traffic in connection with our AR/VR marketing services, (ii) subcontracting and development costs, which mainly represent outsourced service costs to our third party service providers in connection with the design of arts elements including animations, special effects and illustrations in our AR/VR interactive content and AR/VR SaaS products, our games and games related business, and the provision of certain non-core technical support, (iii) use of materials costs, which represent the costs of PGC video materials in connection with our AR/VR content business, and (iv) IP acquisition costs relating to our IP business.

The following table sets forth a breakdown of our cost of revenue by nature in absolute amounts and as a percentage of our total cost of revenue for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Traffic acquisition costs	115,259	65.6	138,362	59.2	311,497	74.2	69,042	68.0	126,732	81.5
Subcontracting and development costs	21,319	12.1	22,586	9.7	36,878	8.8	8,368	8.2	14,632	9.4
Use of materials costs	7,547	4.3	36,792	15.7	44,481	10.6	14,995	14.8	5,491	3.5
IP acquisition costs	24,330	13.9	24,066	10.3	4,302	1.0	4,302	4.2	—	—
Amortization of intangible assets	4,484	2.6	5,724	2.4	10,560	2.5	2,439	2.4	3,671	2.4
Staff costs	1,813	1.0	2,359	1.0	5,488	1.3	1,383	1.4	2,294	1.5
Others *(Note)*	865	0.5	4,005	1.7	6,568	1.6	934	1.0	2,766	1.7
Total	175,617	100.0	233,894	100.0	419,774	100.0	101,463	100.0	155,586	100.0

Note: Other cost of revenue comprises rent of servers and sales commissions to agents in relation to our AR/VR SaaS business.

During the Track Record Period, the largest component of our cost of revenue was traffic acquisition costs, representing 65.6%, 59.2%, 74.2% and 81.5% of our total cost of revenue in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. Our traffic acquisition costs increased from RMB115.3 million in 2019 to RMB138.4 million in 2020, and further increased to RMB311.5 million in 2021, and increased from RMB69.0 million in the three months ended March 31, 2021 to RMB126.7 million in the three months ended March 31, 2022, primarily driven by the growth of our AR/VR marketing services business. Our subcontracting and development costs increased from RMB21.3 million in 2019 to RMB22.6 million in 2020, and further increased to RMB36.9 million in 2021, and increased from RMB8.4 million in the three months ended March 31, 2021 to RMB14.6 million in the three months ended March 31, 2022, primarily driven by the growth of our AR/VR content business. We began to incur use of materials costs in 2019 as we expanded our AR/VR content business in the entertainment industry and began to provide AR/VR content to a customer in the entertainment industry in 2019 who required substantial procurement of PGC video materials. Our use of materials costs increased from RMB7.5 million in 2019 to RMB36.8 million in 2020, and further to RMB44.5 million in 2021, primarily due to our growing AR/VR content business in the entertainment industry and the increasing demand from our customers. Our use of materials costs decreased from RMB15.0 million in the three months ended March 31, 2021 to RMB5.5 million in the three months ended March 31, 2022, primarily due to the decrease in the customer demand for PGC video materials.

The following table sets forth a breakdown of our cost of revenue for our AR/VR content business by industry in absolute amounts and as a percentage of our total cost of revenue for the AR/VR content business for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Entertainment	10,614	44.9	42,492	70.1	71,781	82.6	20,470	80.4	14,837	61.8
Education	5,787	24.5	9,277	15.3	9,916	11.4	2,615	10.3	5,403	22.5
Culture and tourism	5,387	22.8	5,209	8.6	1,650	1.9	1,261	5.0	59	0.3
Technology	1,845	7.8	610	1.0	3,494	4.0	1,088	4.3	2,691	11.2
Healthcare	—	—	3,008	5.0	11	0.1	—	—	—	—
Automobiles	—	—	—	—	9	0.0	10	0.0	1,003	4.2
Total	23,633	100.0	60,597	100.0	86,861	100.0	25,444	100.0	23,993	100.0

The fluctuations in our cost of revenue for our AR/VR content business in different industries are driven by the fluctuations in our revenue for our AR/VR content business in different industries. Our cost of revenue for our AR/VR content business in the entertainment industry increased from RMB10.6 million in 2019 to RMB42.5 million in 2020, and further to RMB70.4 million in 2021, primarily due to the increase in our revenue from the entertainment industry.

Gross Profit and Gross Margin

The following table sets forth a breakdown of our gross profit by service or product type in absolute amounts and as a percentage of revenue, or gross margins, for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	*Gross Margin (%)*	*RMB'000*	*Gross Margin (%)*	*RMB'000*	*Gross Margin (%)*	*RMB'000*	*Gross Margin (%)*	*RMB'000*	*Gross Margin (%)*
							(Unaudited)			
AR/VR marketing services	29,044	21.2	27,490	19.4	81,533	21.7	16,729	20.6	38,055	23.0
AR/VR content	21,690	47.9	54,161	47.2	74,534	46.2	17,167	40.3	29,691	55.3
AR/VR SaaS	3,292	50.5	4,886	52.9	11,255	54.7	1,083	51.5	5,516	57.9
IP	6,189	20.3	5,745	19.3	170	3.8	415	8.8	—	—
Others(Note)	15,110	48.0	12,422	28.8	8,024	24.7	1,892	23.5	21	23.3
Total	75,325	30.0	104,704	30.9	175,516	29.5	37,286	26.9	73,283	32.0

Note: Our other businesses comprise text message services, promotion services, technical services, artist endorsement services, and historically, games and games related business.

During the Track Record Period, our gross profit increased primarily due to the significant increase in our revenue. Our gross margin remained relatively stable during our business expansion as the increase in our cost of revenue did not outpace our revenue growth, which was partially attributable to us maintaining operational efficiency and achieving economies of scale with respect to certain costs, such as subcontracting and development costs and use of material costs, as we were able to benefit from accumulated AR/VR interactive content modules particularly AR/VR SaaS modules, continuous enhancement of our AR/VR development engines and enhanced bargaining power against certain suppliers with our bulk purchases. The cumulative number of our AR/VR SaaS modules increased from 283 as of December 31, 2019 to 496 as of December 31, 2020 and further increased to 818 as of December 31, 2021. The cumulative number of our AR/VR SaaS modules further increased to 883 as of March 31, 2022. We improved our AR/VR development engines by adding specialized development tools including dynamic scenario editors in 2020 and developing specialized systems including a physical simulation system for AR/VR content business in 2021.

Our gross margin of AR/VR marketing services decreased from 21.2% in 2019 to 19.4% in 2020, primarily because we carried out some projects for AR/VR marketing services with lower gross margin in the first half of 2020 as, to the best knowledge, information and belief of our Directors after making reasonable enquiries, our advertising customers scaled down their budget for advertising during the outbreak of COVID-19 and we needed to reach out to a wider market for advertising customers. Our gross margin of AR/VR marketing services increased from 19.4% in 2020 to 21.7% in 2021, primarily because we carried out some projects for AR/VR marketing services with lower gross margin in the first half of 2020. Our gross margin of AR/VR marketing services increased from 20.6% in the three months ended March 31, 2021 to 23.0% in the three months ended March 31, 2022, which our Directors believe was primarily due to our strengthened bargaining power and enhanced negotiation position against our customers as our business grew and the increase in the gross margin of our projects in the entertainment and Internet industries.

Our gross margin of AR/VR content remained generally stable in 2019, 2020 and 2021, recording a gross margin of 47.9% in 2019, 47.2% in 2020 and 46.2% in 2021. Our gross margin of AR/VR content increased from 40.3% in the three months ended March 31, 2021 to 55.3% in the three months ended March 31, 2022, primarily due to some AR/VR content projects for VR games for customers in the entertainment industry which yielded higher gross margins.

Our gross margin of AR/VR SaaS increased from 50.5% in 2019 to 52.9% in 2020, and to 54.7% in 2021, and also increased from 51.5% in the three months ended March 31, 2021 to 57.9% in the three months ended March 31, 2022, primarily because we had less development needs as we gradually accumulated more AR/VR SaaS modules and we benefited from economies of scale with respect to certain costs including staff costs and costs of servers. The cumulative number of our AR/VR SaaS modules increased from 283 as of December 31, 2019 to 496 as of December 31, 2020, to 818 as of December 31, 2021, and further increased to 883 as of March 31, 2022. Our increasing number of AR/VR SaaS modules covered more industries and had more functions, which reduced our development needs when meeting new customer demands.

Our gross margin of IP business generally decreased during the Track Record Period, primarily as we have planned to mainly use IP resources to support our AR/VR business going forward and reserve quality IP rights for our own use. Our gross margin of IP business decreased from 20.3% in 2019 to 19.3% in 2020, and further decreased to 3.8% in 2021. We slowed down replenishing purchased IPs in 2021. As we were mainly licensing relatively old IPs from our inventory, some of the IP transactions we conducted in 2021 had lower gross margins. We did not generate any revenue from IP business in the three months ended March 31, 2022.

Our gross margin of other businesses decreased from 48.0% in 2019 to 28.8% in 2020, primarily as we completed the winding-down of games and games related business in 2019 and as we derived 59.4% of our other business revenue from promotion services in 2020 compared to 24.6% in 2019. The promotion services had a relatively lower gross margin compared to technical services and games and games related businesses. Our gross margin of other businesses decreased from 28.8% in 2020 to 24.7% in 2021, primarily as we derived 79.4% of our other business revenue from text message services in 2021 which had a relatively low gross margin. Our gross margin of other businesses remained relatively stable at 23.3% in the three months ended March 31, 2022 compared to 23.5% in the three months ended March 31, 2021.

Other Income

Our other income consists primarily of tax refund, government grants and interest income on bank deposits and one-off loans to two of our suppliers. For further details on the loans to our suppliers, see the paragraph headed "— Discussion of Certain Key Consolidated Balance Sheets Items — Loan receivables" in this section. The following table sets forth a breakdown of our other income for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest income on bank deposits and loans to third parties	124	1,382	828	22	71
Tax refund	15	4	2,133	1	524
Government grants	190	337	169	169	—
Total	329	1,723	3,130	192	595

Government grants provided to us mainly were one-off subsidies to high and new technology enterprises mainly in the form of interest subsidies with conditions for obtaining the grants including (i) the enterprise obtaining loans through platforms designated by the government authority and (ii) the enterprise being in line with the industrial development direction of the district and has been affected by the COVID-19 pandemic. The government grants we received fluctuated during the Track Record Period as we obtained different types of government grants which were of different amounts.

Other Gains and Losses

Our other gains and losses primarily consist of (i) gains from disposal of intangible assets, (ii) foreign exchange losses, and (iii) others which include miscellaneous gains and losses. Gains from disposal of intangible assets are attributable to disposal of intangible assets acquired for our own use but subsequently sold. The following table sets forth the breakdown of our other gains and losses for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Gains from disposal of intangible assets	—	902	—	—	—
Foreign exchange losses	—	—	(5)	—	(20)
Others	(128)	(629)	452	(819)	—
Total gains (losses)	(128)	273	447	(819)	(20)

We recorded gains from disposal of intangible assets of RMB0.9 million in 2020 for transferring adaptation rights for novels to Customer E and an information technology company in PRC, each an Independent Third Party.

Impairment Losses under ECL model, Net of Reversal

Our impairment losses under ECL model, net of reversal represent net impairment losses recognized or reversed in respect of trade receivables, loan receivables and other receivables. In 2019, 2020, and the three months ended March 31, 2022, we had net impairment losses recognized in respect of trade receivables, loan receivables and other receivables of RMB3.4 million, RMB2.1 million and RMB5.6 million, respectively. In 2021, we had a gain from reversal of provision of impairment of RMB0.9 million primarily due to our improved credit management which led to a decrease in our long outstanding trade receivables. Under our credit management policy, our finance team records trade receivables and sends monthly statement of trade receivables to our sales team. Our sales team is in charge of the collection of trade receivables and checks balances of outstanding trade receivables periodically with our customers by way of email confirmations. For trade receivables that are overdue for more than 60 days, a member of our sales team will follow up on the collection of the trade receivables and report the reasons for the trade receivables being overdue and the customer's payment plan to the supervisor in the sales team. The supervisor will assess and assign more personnel to assist with the collection if necessary. For trade receivables that are overdue for more than 180 days, a member of our sales team will inform the supervisor and the supervisor will assist in the collection. For trade receivables that are overdue for more than one year, our sales team will negotiate with the relevant customer for a concrete payment plan. We may issue a collection notice or take further actions including bringing litigations if no concrete payment plan can be reached. In 2021, we further enhanced our trade receivables collection efforts and designated a member of our sales team to be responsible for a customer with trade receivables and linked the performance assessment of our sales team to the outcome of the collection of the trade receivables.

Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of (i) staff costs, (ii) advertising and marketing expenses, (iii) travelling expenses, (iv) office expenses, and (v) others. Our staff costs include wages, bonuses and benefits for our personnel responsible for sales and marketing activities. Our distribution and selling expenses accounted for 2.2%, 2.1%, 2.3% and 1.4% of our revenue in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively.

The following table sets forth a breakdown of the major components of our distribution and selling expenses in absolute amounts and as a percentage of our total distribution and selling expenses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Staff costs	1,235	22.6	3,320	45.7	9,865	72.1	1,920	51.1	2,762	88.2
Advertising and marketing expenses	3,986	73.0	3,685	50.8	3,211	23.5	1,770	47.1	—	—
Travelling expenses	93	1.7	228	3.1	520	3.8	65	1.7	33	1.1
Office expenses	9	0.2	5	0.1	28	0.2	—	—	1	0.1
Others	134	2.5	19	0.3	58	0.4	1	0.1	336	10.6
Total	5,457	100.0	7,257	100.0	13,682	100.0	3,756	100.0	3,132	100.0

Our distribution and selling expenses increased from RMB5.5 million in 2019 to RMB7.3 million in 2020, primarily due to the increase in staff costs of RMB2.1 million due to an increase in the headcounts of our sales team from 16 as of December 31, 2019 to 23 as of December 31, 2020 driven by the expansion of our business and the increase in the average compensation level. Our distribution and selling expenses further increased from RMB7.3 million in 2020 to RMB13.7 million in 2021, primarily due to the increase in staff costs of RMB6.5 million due to an increase in the headcounts of our sales team from 23 as of December 31, 2020 to 33 as of December 31, 2021 driven by the expansion of our business and the increase in the average compensation level. Our distribution and selling expenses decreased from RMB3.8 million in the three months ended March 31, 2021 to RMB3.1 million in the three months ended March 31, 2022, primarily due to the decrease in advertising and marketing expenses of RMB1.8 million primarily because we had less marketing need in relation to the promotion of our AR/VR SaaS platform as our AR/VR SaaS platform gradually gained market recognition, partially offset by the increase in staff costs of RMB0.8 million due to an increase in the headcounts of our sales team from 27 as of March 31, 2021 to 38 as of March 31, 2022, driven by the expansion of our business and the increase in the average compensation level.

Administrative Expenses

Our administrative expenses primarily consist of (i) staff costs which include wages, bonuses and benefits for our administrative personnel, (ii) rental and property management expenses, and (iii) professional service fees in relation to our financing activities which were not related to the **[REDACTED]**, among others. Our administrative expenses accounted for 2.3%, 2.5%, 3.6% and 2.4% of our revenue in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively.

The following table sets forth a breakdown of the major components of our administrative expenses in absolute amounts and as a percentage of our total administrative expenses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Staff costs	2,959	50.6	3,031	35.1	6,768	31.2	1,404	59.4	2,321	41.6
Rental and property management expenses	1,148	19.6	1,581	18.3	3,992	18.4	466	19.7	1,338	24.0
Professional service fees	594	10.2	2,574	29.8	6,681	30.8	18	0.8	405	7.3
Office expenses	234	4.0	280	3.2	906	4.2	176	7.4	299	5.4
Travelling expenses	143	2.4	356	4.1	692	3.2	75	3.2	196	3.5
Others	768	13.2	812	9.5	2,672	12.2	225	9.5	1,019	18.2
Total	5,846	100.0	8,634	100.0	21,711	100.0	2,364	100.0	5,578	100.0

Our administrative expenses increased from RMB5.8 million in 2019 to RMB8.6 million in 2020, primarily due to (i) the increase in our professional service fees in relation to our financing activities which were not related to the **[REDACTED]**, and (ii) the increase in our rental and property management expenses as we rented more office space due to business expansion. Our administrative expenses further increased from RMB8.6 million in 2020 to RMB21.7 million in 2021, primarily due to (i) the increase in our professional service fees in relation to our financing activities which were not related to the **[REDACTED]**, (ii) the increase in the staff costs of our administrative personnel in line with our business expansion and the increase in the average compensation level of our administrative personnel, and (iii) the increase in our rental and property management expenses as we rented more office space due to business expansion. Our administrative expenses increased from RMB2.4 million in the three months ended March 31, 2021 to RMB5.6 million in the three months ended March 31, 2022, primarily due to (i) the increase in the staff costs of our administrative personnel in line with our business expansion and the increase in the average compensation level of our administrative personnel, (ii) the increase in our rental and property management expenses as we rented more office space due to business expansion, and (iii) the increase in our professional service fees which were not related to the **[REDACTED]**.

We incurred RMB0.6 million, RMB2.6 million, RMB6.7 million and RMB0.4 million of professional service fees in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively, all of which had been fully settled as of the Latest Practicable Date. During the Track Record Period, professional parties we engaged primarily included the followings: (i) in the three months ended March 31, 2022, we incurred (a) RMB0.1 million to an accounting firm in relation to tax advice, and (b) RMB75,000 to a law firm in relation to regular legal advice; (ii) in 2021, we incurred (a) RMB4.1 million to financial advisors and business consulting firms in relation to financing advice and services including **[REDACTED]** investment, (b) RMB1.2 million to accounting firms in relation to special audit and financial review services, and (c) RMB0.4 million to law firms for regular legal advice and trademark registration services; (iii) in 2020, we incurred (a) RMB1.6 million to financial advisors in relation to financing advice and services including **[REDACTED]** investment, (b) RMB0.8 million to accounting firms in relation to special audit services, and (c) RMB80,000 to a law firm for regular legal advice; (iv) in 2019, we incurred (a) RMB0.2 million to accounting firms in relation to special audit services, (b) RMB0.1 million to a law firm in relation to regular legal advice, and (c) RMB94,000 to a securities firm for advisory services for our de-Listing from the NEEQ. Our professional service fees increased from RMB0.6 million in 2019 to RMB2.6 million in 2020 and further increased to RMB6.7 million in 2021, and increased from RMB18,000 in the three months ended March 31, 2021 to RMB0.4 million in the three months ended March 31, 2022, mainly because we required more professional services which were not related to the **[REDACTED]**. To the best knowledge, information and belief of our Directors after having made all reasonable enquiries, each of the professional parties we engaged has no other past or present relationships (including business, family, employment, financing or otherwise) with our Group, our Shareholders, our Directors or senior management, or any of their respective associates, save for acting in the capacity under the relevant professional service agreement with us.

Research and Development Expenses

Our research and development expenses during the Track Record Period primarily consisted of (i) staff costs of our R&D personnel and (ii) outsourced R&D expenses mainly in relation to outsourced interactive content modules, the accounting system for our AR/VR SaaS platform and our office automation system. In order to maintain our strength in R&D capabilities, we have been committed to invest in R&D activities and have increased our research and development expenses during the Track Record Period. In 2019, 2020 and 2021, and the three months ended March 31, 2022, our research and development expenses amounted to RMB11.4 million, RMB15.0 million, RMB21.7 million and RMB8.2 million, respectively. Our outsourced R&D expenses increased from RMB8.9 million in 2019 to RMB10.6 million in 2020, and further to RMB15.7 million in 2021. Our outsourced R&D expenses increased from RMB5.7 million in the three months ended March 31, 2021 to RMB6.2 million in the three months ended March 31, 2022. Staff costs of our R&D personnel increased from RMB2.5 million in 2019 to RMB4.3 million in 2020, and further to RMB5.4 million in 2021. Staff costs of our R&D personnel increased from RMB0.9 million in the three months ended March 31, 2021 to RMB1.9 million in the three months ended March 31, 2022. As of December 31, 2019, 2020 and 2021 and March 31, 2022, our R&D team consisted of 18, 39, 46 and 50 personnel, respectively. We did not capitalize any research and development expenditures during the Track Record Period.

Fair Value Changes on Financial Liabilities Designated as at FVTPL

Our fair value changes on financial liabilities designated as at FVTPL represent changes in fair value of the shares with preferred rights and preferred shares issued by Ophyer Technology to certain **[REDACTED]** Investors in 2020 and 2021. We designated the shares with preferred rights and preferred shares as financial liabilities at fair value through profit or loss. They were initially recognized at fair value. Any directly attributable transaction costs were recognized as finance costs in profit or loss. For further details, see Note 26 in the Accountants' Report in Appendix I to this document. Our fair value changes of shares with preferred rights and preferred shares were a loss of RMB1.4 million and RMB21.1 million in 2020 and 2021, respectively. Prior to the **[REDACTED]**, the shares with preferred rights and preferred shares are not traded in an active market and their value at respective reporting dates is determined using valuation techniques.

Finance Costs

Our finance costs primarily include interest expenses on bank borrowings and lease liabilities. Our finance costs amounted to RMB1.1 million, RMB1.9 million, RMB2.4 million and RMB0.6 million in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively. The increase in finance costs during the Track Record Period was primarily due to (i) the increase in our bank borrowings, driven by our business expansion, and (ii) the new lease of our office in Beijing in 2021.

Income Tax Expense

We are subject to income tax on an entity basis on profits arising in or derived from tax jurisdictions in which our members are domiciled and operate. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains.

We did not have any assessable income subject to Hong Kong profits tax during the Track Record Period. Therefore, no provision for Hong Kong profits tax was made.

Our income taxation in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. We are subject to a general PRC EIT rate of 25%. However, Ophyer Technology was qualified as a high and new technology enterprise ("**HTNE**") and enjoyed a lower income tax rate of 15% during the years ended December 31, 2019, 2020 and 2021. Two of our PRC subsidiaries, Shixin Network in Horgos and Kashi Fanxing in Kashi, were exempted from income tax from their respective dates of establishment to December 31, 2020. In addition, certain of our PRC subsidiaries have been approved as small low-profit enterprises and were subject to a preferential income tax rate of 5% or 10% during the Track Record Period. Our deferred income tax refers to the temporary differences arising between the tax bases of our assets and liabilities and their carrying amounts in our historical financial information. Deferred income tax is determined using tax rates (and according to relevant laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. During the Track Record Period, our deferred income tax assets primarily consisted of the deductible temporary difference arising between the tax base and carrying amounts of our impairment losses on receivables. For further details, see Note 12 in the Accountants' Report in Appendix I to this document. For the years ended December 31, 2019, 2020 and 2021, and the three months ended March 31, 2022, our effective tax rates were 13.4%, 14.4%, 17.7% and 21.8%, respectively. Our effective tax rate was relatively high in 2021 because we could not take full advantage of our preferential tax rate, particularly because fair value changes on financial liabilities designated as at FVTPL was non-tax deductible. Our effective tax rate was high in the three months ended March 31, 2022 mainly as a result of our Reorganization under which Ophyer Technology transferred certain contracts to Beijing Flowing Cloud and may no longer meet HTNE requirements for preferential tax rate. As of the Latest Practicable Date, we did not have any disputes with any tax authorities.

The following table sets forth a breakdown of the major components of our income tax expense in absolute amounts and as a percentage of our total income tax expense for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2019		2020		2021		2021		2022	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(Unaudited)			
Income Tax Expense										
Current enterprise income tax	6,887	106.5	10,379	102.6	15,667	101.6	3,187	114.4	12,460	117.3
Deferred tax	(420)	(6.5)	(260)	(2.6)	(244)	(1.6)	(402)	(14.4)	(1,838)	(17.3)
Total	6,467	100.0	10,119	100.0	15,423	100.0	2,785	100.0	10,622	100.0

As of the Latest Practicable Date, we did not have any disputes with any tax authorities.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Revenue

Our revenue increased by 65.0% from RMB138.7 million in the three months ended March 31, 2021 to RMB228.9 million in the three months ended March 31, 2022, mainly attributable to the increase in our revenue generated from our AR/VR marketing services and AR/VR content businesses. The overall growth of our revenue was driven by our business expansion as a result of AR/VR gaining popularity.

AR/VR marketing services

Revenue from our AR/VR marketing services increased by 103.7% from RMB81.3 million in the three months ended March 31, 2021 to RMB165.6 million in the three months ended March 31, 2022, primarily due to an increase in the number of advertising customers with respect to our AR/VR marketing services, the number of advertising products we promoted, and the average spending per advertising customer, driven by our continued business focus on AR/VR marketing services. The number of our advertising customers increased from 13 in the three months ended March 31, 2021 to 21 in the three months ended March 31, 2022. The average spending per advertising customer increased from RMB6.3 million in the three months ended March 31, 2021 to RMB7.9 million in the three months ended March 31, 2022 mainly due to the increasing demand of our existing and new customers as the average number of advertising products we promoted for each customer increased and the average promotional duration of advertising products we promoted increased. The number of advertising products we promoted for our advertising customers increased from 55 in the three months ended March 31, 2021 to 93 in the three months ended March 31, 2022 driven by the increasing demand of our customers due to our continuous enhancement of AR/VR marketing services, as well as an increase in our advertising products from the entertainment and Internet industries in the three months ended March 31, 2022 driven by the growing market demands.

AR/VR content

Revenue from our AR/VR content increased by 26.0% from RMB42.6 million in the three months ended March 31, 2021 to RMB53.7 million in the three months ended March 31, 2022, primarily due to an increase in the number of customers and an increase in the number of AR/VR content projects we carried out. Our number of customers with respect to AR/VR content increased from 11 in the three months ended March 31, 2021 to 15 in the three months ended March 31, 2022. The number of AR/VR content projects we carried out increased from 22 in the three months ended March 31, 2021 to 30 in the three months ended March 31, 2022 driven by the demand for AR/VR products for different scenarios including VR games, virtual meetings and online exhibitions.

AR/VR SaaS

Revenue from our AR/VR SaaS business increased by 353.2% from RMB2.1 million in the three months ended March 31, 2021 to RMB9.5 million in the three months ended March 31, 2022, primarily because we were able to charge a higher price range of customized AR/VR SaaS projects in the three months ended March 31, 2022 as compared to the three months ended March 31, 2021, as well as an increase of over 1,900 subscribed paying users of our AR/VR SaaS platform as of March 31, 2022 as compared to March 31, 2021. The cumulative number of our AR/VR SaaS modules increased from 818 as of December 31, 2021 to 883 as of March 31, 2022.

IP

Our revenue from IP business decreased from RMB4.7 million in the three months ended March 31, 2021 to nil in the three months ended March 31, 2022, primarily due to our continuous shift of business focus to mainly use IPs to support our AR/VR businesses going forward rather than licensing out IPs.

Others

Revenue from our other businesses decreased by 98.9% from RMB8.0 million in the three months ended March 31, 2021 to RMB88,000 in the three months ended March 31, 2022, primarily due to the decrease in our revenue from promotion services and text message services as we placed less business focus on non-AR/VR services.

Cost of Revenue

Our cost of revenue increased by 53.3% from RMB101.5 million in the three months ended March 31, 2021 to RMB155.6 million in the three months ended March 31, 2022. This increase was primarily driven by the increase in the traffic acquisition costs in relation to our AR/VR marketing services, and the subcontracting and development costs in relation to our AR/VR content business, in line with the growth of our AR/VR marketing services and AR/VR content business.

Our traffic acquisition costs in relation to our AR/VR marketing services and text message services increased by 83.6% from RMB69.0 million in the three months ended March 31, 2021 to RMB126.7 million in the three months ended March 31, 2022, primarily due to the growth of our AR/VR marketing services. Our subcontracting and development costs increased by 74.9% from RMB8.4 million in the three months ended March 31, 2021 to RMB14.6 million in the three months ended March 31, 2022, primarily due to the expansion of our AR/VR content business.

Gross Profit and Gross Margin

Our overall gross profit increased by 96.5% from RMB37.3 million in the three months ended March 31, 2021 to RMB73.3 million in the three months ended March 31, 2022, primarily driven by the increase in our revenue.

Our overall gross margin increased from 26.9% in the three months ended March 31, 2021 to 32.0% in the three months ended March 31, 2022, mainly because gross margins of our AR/VR marketing services and AR/VR content increased.

Our gross margin of AR/VR marketing services increased from 20.6% in the three months ended March 31, 2021 to 23.0% in the three months ended March 31, 2022, which our Directors believe was primarily because of our strengthened bargaining power and enhanced negotiation position against our customers as our business grew and the increase in the gross margin of our projects in the entertainment and Internet industries. Our gross margin of AR/VR content increased from 40.3% in the three months ended March 31, 2021 to 55.3% in the three months ended March 31, 2022, primarily due to some AR/VR content projects for VR games for customers in the entertainment industry which yielded higher gross margins. Our gross margin of AR/VR SaaS business increased from 51.5% in the three months ended March 31, 2021 to 57.9% in the three months ended March 31, 2022, primarily because we had less development needs as we gradually accumulated more AR/VR SaaS modules and we benefited from economies of scale with respect to certain costs including staff costs and costs of servers. The cumulative number of our AR/VR SaaS modules increased from 818 as of December 31, 2021 to 883 as of March 31, 2022. Our gross margin of other businesses remained relatively stable at 23.3% in the three months ended March 31, 2022 compared to 23.5% in the three months ended March 31, 2021.

Other Income

Our other income increased by 209.9% from RMB0.2 million in the three months ended March 31, 2021 to RMB0.6 million in the three months ended March 31, 2022, primarily as a result of the increase in tax refund due to favorable tax policies.

Other Gains and Losses

Our other net losses decreased by 97.6% from RMB0.8 million in the three months ended March 31, 2021 to RMB20 thousand in the three months ended March 31, 2022, primarily due to the decrease in other losses.

Impairment Losses under ECL model, Net of Reversal

Our impairment losses under ECL model, net of reversal increased by 107.1% from RMB2.7 million in the three months ended March 31, 2021 to RMB5.6 million in the three months ended March 31, 2022, primarily attributable to the increase in our trade receivables in line with our business expansion.

Distribution and Selling Expenses

Our distribution and selling expenses decreased by 16.6% from RMB3.8 million in the three months ended March 31, 2021 to RMB3.1 million in the three months ended March 31, 2022, primarily attributable to the decrease in advertising and marketing expenses of RMB1.8 million because we had less marketing need to promote AR/VR SaaS platform as our AR/VR SaaS platform gradually gained market recognition, partially offset by the increase in staff costs of RMB0.8 million due to an increase in the headcounts of our sales team from 27 as of March 31, 2021 to 38 as of March 31, 2022 driven by the expansion of our business and the increase in the average compensation level.

Administrative Expenses

Our administrative expenses increased by 136.0% from RMB2.4 million in the three months ended March 31, 2021 to RMB5.6 million in the three months ended March 31, 2022, primarily due to (i) the increase in the staff costs of our administrative personnel in line with our business expansion and the increase in the average compensation level of our administrative personnel, (ii) the increase in our rental and property management expenses as we rented more office space due to business expansion, and (iii) the increase in our professional service fees which were not related to the **[REDACTED]**.

Research and Development Expenses

Our research and development expenses increased by 22.6% from RMB6.6 million in the three months ended March 31, 2021 to RMB8.2 million in the three months ended March 31, 2022, primarily due to the increase of RMB1.0 million in the staff costs of our research and development personnel in relation to our enhancement effort on our AR/VR development engines and our AR/VR SaaS platform. Our research and development personnel increased from 42 as of March 31, 2021 to 50 as of March 31, 2022.

[REDACTED]

We incurred **[REDACTED]** of **[REDACTED]** in the three months ended March 31, 2022 in relation to the **[REDACTED]**.

Fair Value Changes on Financial Liabilities Designated as at FVTPL

Our loss from fair value changes on financial liabilities designated as at FVTPL was RMB8.7 million in the three months ended March 31, 2021 representing changes in fair value of the shares with preferred rights issued by Ophyer Technology in the three months ended March 31, 2021. We did not have such losses in the three months ended March 31, 2022 because as of December 31, 2021, all of our financial liabilities designated as at FVTPL had been converted into equity.

Finance Costs

Our finance costs increased by 9.7% from RMB0.5 million in the three months ended March 31, 2021 to RMB0.6 million in the three months ended March 31, 2022, primarily due to the increase in the interest expenses on other financial liabilities and our lease liabilities as a result of our lease of new office premises.

Income Tax Expense

Our income tax expense increased by 281.4% from RMB2.8 million in the three months ended March 31, 2021 to RMB10.6 million in the three months ended March 31, 2022, primarily due to the increase in our taxable income.

Profit for the Year and Net Profit Margin

As a result of the foregoing, we recorded a profit of RMB9.2 million in the three months ended March 31, 2021, compared to a profit of RMB38.2 million in the three months ended March 31, 2022. Our net profit margin increased from 6.6% in the three months ended March 31, 2021 to 16.7% in the three months ended March 31, 2022 mainly due to our improved gross profit margin in the three months ended March 31, 2022, and the effect of fair value changes on financial liabilities designated as at FVTPL in the three months ended March 31, 2021.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 75.8% from RMB338.6 million in 2020 to RMB595.3 million in 2021, mainly attributable to the increase in our revenue generated from our AR/VR marketing services and AR/VR content businesses. The overall growth of our revenue was driven by our business expansion as a result of the recovery of the economy due to further easing of the impact of COVID-19 and as a result of AR/VR gaining popularity.

AR/VR marketing services

Revenue from our AR/VR marketing services increased by 165.6% from RMB141.7 million in 2020 to RMB376.3 million in 2021, primarily due to an increase in the number of advertising customers with respect to our AR/VR marketing services, the number of advertising products we promoted, and the average spending per advertising customer, driven by our continued business focus on AR/VR marketing services and the further easing of the impact of COVID-19. The number of our advertising customers slightly increased from 23 in 2020 to 24 in 2021. The average spending per advertising customer increased from RMB6.2 million in 2020 to RMB15.7 million in 2021 mainly due to the increasing demand of our existing and new customers as the average number of advertising products we promoted for each customer increased and average promotional duration of advertising products we promoted increased. The number of advertising products we promoted for our advertising customers increased from 56 in 2020 to 133 in 2021 driven by the increasing demand of our customers due to recovery of the economy and our continuous enhancement of AR/VR marketing services, as well as an increase of our advertising products from the entertainment and Internet industries in 2021 driven by the growing market demands.

AR/VR content

Revenue from our AR/VR content increased by 40.6% from RMB114.8 million in 2020 to RMB161.4 million in 2021, primarily due to an increase in the number of customers and an increase in the number of AR/VR content projects we carried out. Our number of customers with respect to AR/VR content increased from 21 in 2020 to 46 in 2021. The number of AR/VR content projects we carried out increased from 41 in 2020 to 95 in 2021 driven by the increasing demand for AR/VR products and our improved operational and technical capabilities. We improved our operational and technical capabilities by developing and upgrading our underlying technology and content technology. Particularly we developed more than five specialized systems including a physical simulation system in 2021 which improved our development efficiency by shortening our development time. In addition, we accumulated experiences and expertise in industries such as entertainment and education and were able to benefit from our accumulated experience and reuse some of the AR/VR content related algorithms and make reference to some of the content materials of our previous projects.

AR/VR SaaS

Revenue from our AR/VR SaaS business increased by 122.9% from RMB9.2 million in 2020 to RMB20.6 million in 2021, primarily due to an increase in the price range of customized AR/VR SaaS projects in 2021 as compared to 2020 driven by the market recognition of our technical capability, as well as an increase of over 2,000 subscribed paying users of our AR/VR SaaS platform in 2021 as compared to 2020. We developed more features and enhanced data analytics functions of our AR/VR SaaS platform in 2021, making more than 50 technical improvements and adding four functions to our platform. The cumulative number of our AR/VR SaaS modules increased from 496 as of December 31, 2020 to 818 as of December 31, 2021.

IP

Our revenue from IP business decreased by 85.0% from RMB29.8 million in 2020 to RMB4.5 million in 2021, primarily as we shifted our business focus mainly to use IPs to support our AR/VR businesses going forward rather than licensing out IPs.

Others

Revenue from our other businesses decreased by 24.6% from RMB43.1 million in 2020 to RMB32.5 million in 2021, primarily due to the decrease in our revenue from promotion services from RMB25.6 million in 2020 to RMB6.1 million in 2021 as we placed less business focus on non-AR/VR marketing services.

Cost of Revenue

Our cost of revenue increased by 79.5% from RMB233.9 million in 2020 to RMB419.8 million in 2021. This increase was primarily driven by the increase in the traffic acquisition costs in relation to our AR/VR marketing services and text message services businesses, and the use of materials costs in relation to our AR/VR content business, in line with the growth of our AR/VR marketing services, AR/VR content business and other businesses.

Our traffic acquisition costs in relation to our AR/VR marketing services and text message services increased by 125.1% from RMB138.4 million in 2020 to RMB311.5 million in 2021, primarily due to the growth of our AR/VR marketing services and text message services businesses. Our use of materials costs in relation to our AR/VR content business increased by 20.9% from RMB36.8 million in 2020 to RMB44.5 million in 2021, primarily due to the increase in our demand for PGC video materials mainly driven by the increasing customer demand for our AR/VR content. Our subcontracting and development costs increased by 63.3% from RMB22.6 million in 2020 to RMB36.9 million in 2021, primarily due to the expansion of our AR/VR content business.

Gross Profit and Gross Margin

Our overall gross profit increased by 67.6% from RMB104.7 million in 2020 to RMB175.5 million in 2021, primarily driven by the increase in our revenue.

Our overall gross margin slightly decreased from 30.9% in 2020 to 29.5% in 2021, as gross margins of our AR/VR content slightly decreased. We managed to keep our gross margin relatively stable notwithstanding our fast business expansion.

Our gross margin of AR/VR marketing services increased from 19.4% in 2020 to 21.7% in 2021, primarily because we carried out some projects for AR/VR marketing services with lower gross margin in the first half of 2020 as, to the best knowledge, information and belief of our Directors after having made reasonable enquiries, some of our advertising customers scaled down their budget for advertising during the outbreak of COVID-19 and we needed to reach out to a wider market for advertising customers. Our gross margin of AR/VR content slightly decreased from 47.2% in 2020 to 46.2% in 2021. Our gross margin of AR/VR SaaS business increased from 52.9% in 2020 to 54.7% in 2021, primarily because we had less development needs as we gradually accumulated more AR/VR SaaS modules and we benefited from economies of scale with respect to certain costs including staff costs and costs of servers. The cumulative number of our AR/VR SaaS modules increased from 496 as of December 31, 2020 to 818 as of December 31, 2021. Our gross margin of IP business decreased from 19.3% in 2020 to 3.8% in 2021, primarily as some of the IP transactions we conducted had lower gross margins. Our gross margin of other businesses decreased from 28.8% in 2020 to 24.7% in 2021, primarily as we derived 79.4% of our other business revenue from text message services in 2021 which had a relatively low gross margin.

Other Income

Our other income increased by 81.7% from RMB1.7 million in 2020 to RMB3.1 million in 2021, primarily as a result of an increase in tax refund.

Other Gains and Losses

Our other net gains increased by 63.7% from RMB0.3 million in 2020 to RMB0.4 million in 2021, primarily due to an increase in gains for purchases not paid as the relevant suppliers were deregistered.

Impairment Losses under ECL model, Net of Reversal

Our impairment losses under ECL model, net of reversal was RMB2.1 million in 2020. We had a gain from reversal of provision of impairment of RMB0.9 million in 2021, primarily attributable to our improved credit management which led to a decrease in our long outstanding trade receivables.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 88.5% from RMB7.3 million in 2020 to RMB13.7 million in 2021, primarily attributable to an increase of RMB6.5 million in staff costs of our sales and marketing personnel due to an increase in the headcounts of our sales team from 23 as of December 31, 2020 to 33 as of December 31, 2021 driven by the expansion of our business and the increase in the average compensation level in line with the expansion of our business.

Administrative Expenses

Our administrative expenses increased by 151.5% from RMB8.6 million in 2020 to RMB21.7 million in 2021, primarily due to (i) an increase of RMB4.1 million in our professional service fees in relation to our financing activities which were not related to the **[REDACTED]**, (ii) the increase of RMB3.7 million in the staff costs of our administrative personnel in line with our business expansion and the increase in the compensation level of our administrative personnel, and (iii) an increase of RMB2.4 million in our rental and property management expenses as we rented more office space due to business expansion.

Research and Development Expenses

Our research and development expenses increased by 44.2% from RMB15.0 million in 2020 to RMB21.7 million in 2021, primarily due to (i) the increase of RMB5.0 million in the outsourced R&D expenses, primarily in relation to the accounting system for our AR/VR SaaS platform and our text messaging system, and (ii) the increase of RMB1.1 million in the staff costs of our research and development personnel, primarily in relation to our enhancement effort on our AR/VR development engines and our AR/VR SaaS platform. Our research and development personnel increased from 39 as of December 31, 2020 to 46 as of December 31, 2021.

[REDACTED]

We incurred **[REDACTED]** of **[REDACTED]** in 2021 in relation to the **[REDACTED]**.

Fair Value Changes on Financial Liabilities Designated as at FVTPL

Our loss from fair value changes on financial liabilities designated as at FVTPL increased by over 14 folds from RMB1.4 million in 2020 to RMB21.1 million in 2021, as a result of changes in fair value of the shares with preferred rights and preferred shares issued by Ophyer Technology in 2020 and 2021.

Finance Costs

Our finance costs increased by 22.8% from RMB1.9 million in 2020 to RMB2.4 million in 2021, primarily due to the increase in the interest expenses on other financial liabilities and our lease liabilities as a result of our lease of new office premises.

Income Tax Expense

Our income tax expense increased by 52.4% from RMB10.1 million in 2020 to RMB15.4 million in 2021, primarily due to the increase in our taxable income.

Profit for the Year and Net Profit Margin

As a result of the foregoing, we recorded a profit of RMB71.7 million in 2021, compared to a profit of RMB60.3 million in 2020. Our net profit margin decreased from 17.8% in 2020 to 12.0% in 2021 mainly due to the effect of fair value changes on financial liabilities designated as at FVTPL and **[REDACTED]**.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 34.9% from RMB250.9 million in 2019 to RMB338.6 million in 2020, mainly attributable to the increase in our revenue generated from our AR/VR marketing services, AR/VR content and other businesses. Notwithstanding our revenue from AR/VR content and services businesses grew at a slower pace in 2020, we regained our growth momentum in the second half of 2020. The overall growth of our revenue was driven by our business expansion as a result of the market recognition of our technical capability and the industry growth.

AR/VR marketing services

Revenue from our AR/VR marketing services business increased by 3.4% from RMB137.1 million in 2019 to RMB141.7 million in 2020, primarily due to an increase in the number of advertising customers from 19 in 2019 to 23 in 2020 driven by our continuous enhancement of AR/VR marketing services.

AR/VR content

Revenue from our AR/VR content business increased by 153.2% from RMB45.3 million in 2019 to RMB114.8 million in 2020, primarily due to an increase in the number of customers from 10 in 2019 to 21 in 2020 and an increase in the number of AR/VR content projects we carried out from 35 in 2019 to 41 in 2020 driven by the increasing recognition of our AR/VR content products and our improved operational and technical capabilities which allowed us to take on more complex and larger AR/VR content projects. We improved our operational and technical capabilities by developing and upgrading our underlying technology and content technology. Particularly, we improved our AR/VR development engines by adding three specialized development tools including dynamic scenario editors.

AR/VR SaaS

Revenue from our AR/VR SaaS business increased by 41.8% from RMB6.5 million in 2019 to RMB9.2 million in 2020, primarily due to the increase in the number of customized SaaS projects we carried out from 204 in 2019 to 554 in 2020 driven by the continuous improvement and optimization of our SaaS products as well as the increased demand for customized SaaS solutions from our customers. We improved our AR/VR SaaS platform in 2020, making more than 30 technical improvements and significantly reducing content access time by users. The cumulative number of our AR/VR SaaS modules increased from 283 as of December 31, 2019 to 496 as of December 31, 2020. In addition, we upgraded the online editors of our AR/VR SaaS platform which improved the efficiency of our content development.

IP

Revenue from our IP business remained relatively stable with a slight decrease of 2.3% from RMB30.5 million in 2019 to RMB29.8 million in 2020.

Others

Revenue from our other businesses increased by 36.9% from RMB31.5 million in 2019 to RMB43.1 million in 2020, primarily due to an increase of revenue from our promotion services from RMB7.8 million in 2019 to RMB25.6 million 2020, driven by an increase in our revenue from promotion services and the introduction of our text message services, which had a revenue of RMB10.4 million in 2020, with the establishment of a new subsidiary, Beijing Xingshi, carrying out the text message services.

Cost of Revenue

Our cost of revenue increased by 33.2% from RMB175.6 million in 2019 to RMB233.9 million in 2020, primarily due to the increase in the traffic acquisition costs in relation to our AR/VR marketing services, promotion services, text message services, the subcontracting and development costs in relation to our AR/VR content and AR/VR SaaS business, and the use of materials costs in relation to our AR/VR content business, in line with the growth of our AR/VR marketing services, AR/VR content, AR/VR SaaS business and other businesses.

Our traffic acquisition costs increased by 20.0% from RMB115.3 million in 2019 to RMB138.4 million in 2020, primarily due to the growth of our AR/VR marketing services, promotion services and text message services businesses. Our use of materials costs in relation to our AR/VR content business increased by 387.5% from RMB7.5 million in 2019 to RMB36.8 million in 2020, primarily due to the increase in our demand for PGC video materials mainly driven by the increasing customer demand for our AR/VR content. Our subcontracting and development costs increased by 5.9% from RMB21.3 million in 2019 to RMB22.6 million in 2020, primarily driven by the growth of our AR/VR content business.

Gross Profit and Gross Margin

Our overall gross profit increased by 39.0% from RMB75.3 million in 2019 to RMB104.7 million in 2020, primarily driven by the increase in our revenue.

Our overall gross margin remained relatively stable at 30.9% in 2020 compared to 30.0% in 2019.

Our gross margin of AR/VR marketing services decreased from 21.2% in 2019 to 19.4% in 2020 primarily because we carried out some projects for AR/VR marketing services with lower gross margin in the first half of 2020 as, to the best knowledge, information and belief of our Directors after having made reasonable enquiries, some of our advertising customers scaled down their budget for advertising during the outbreak of COVID-19 and we needed to reach out to a wider market for advertising customers. Our gross margin of AR/VR content remained generally stable at 47.2% in 2020 compared to 47.9% in 2019. Our gross margin of AR/VR SaaS increased from 50.5% in 2019 to 52.9% in 2020, primarily because we had less development needs as we gradually accumulated more AR/VR SaaS modules and we benefited from economies of scale with respect to certain costs including staff costs and costs of servers. The cumulative number of our AR/VR SaaS modules increased from 283 as of December 31, 2019 to 496 as of December 31, 2020. Our gross margin of IP business slightly decreased from 20.3% in 2019 to 19.3% in 2020. Our gross margin of other businesses further decreased from 48.0% in 2019 to 28.8% in 2020, primarily as we completed the winding-down of games and games related business in 2019 and we derived 59.4% of our other business revenue from promotion services in 2020 compared to 24.6% in 2019. The promotion services had a relatively lower gross margin compared to technical services and games and games related businesses.

Other Income

Our other income increased significantly from RMB0.3 million in 2019 to RMB1.7 million in 2020, primarily as a result of the increase in our interest income on one-off loans to our suppliers.

Other Gains and Losses

We recorded other losses of RMB0.1 million in 2019 and other gains of RMB0.3 million in 2020, primarily due to gains of RMB0.9 million from disposal of intangible assets.

Impairment Losses under ECL model, Net of Reversal

Our impairment losses under ECL model, net of reversal decreased by 37.7% from RMB3.4 million in 2019 to RMB2.1 million in 2020, primarily attributable to the reversal of provisions for the impairment of loans to our suppliers.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 33.0% from RMB5.5 million in 2019 to RMB7.3 million in 2020, primarily due to an increase of RMB2.1 million in staff costs of our sales and marketing personnel due to an increase in the headcounts of our sales team from 16 as of December 31, 2019 to 23 as of December 31, 2020 driven by the expansion of our business and the increase in the average compensation level. The increase in our staff costs was in line with the expansion of our business.

Administrative Expenses

Our administrative expenses increased by 47.7% from RMB5.8 million in 2019 to RMB8.6 million in 2020, primarily due to (i) an increase of RMB2.0 million in our professional service fees in relation to our financing activities which were not related to the **[REDACTED]**, and (ii) an increase of RMB0.4 million in our rental and property management expenses as we rented more office space due to business expansion.

Research and Development Expenses

Our research and development expenses increased by 31.7% from RMB11.4 million in 2019 to RMB15.0 million in 2020, primarily attributable to (i) the increase of RMB1.8 million in the staff costs of our research and development personnel, primarily in relation to our enhancement effort on our AR/VR development engines and our AR/VR SaaS platform, and (ii) the increase of RMB1.8 million of outsourced R&D expenses in relation to outsourced interactive content modules and the accounting system for our AR/VR SaaS platform. Our research and development personnel increased from 18 as of December 31, 2019 to 39 as of December 31, 2020.

Fair Value Changes on Financial Liabilities Designated as at FVTPL

Our fair value changes of shares with preferred rights were a loss of RMB1.4 million in 2020, representing changes in fair value of the shares with preferred rights issued by Ophyer Technology in 2020. We did not have such losses in 2019.

Finance Costs

Our finance costs increased by 81.8% from RMB1.1 million in 2019 to RMB1.9 million in 2020, primarily due to the increase in the interest expenses on bank borrowings as a result of the increase of our bank borrowings.

Income Tax Expense

Our income tax expense increased by 56.5% from RMB6.5 million in 2019 to RMB10.1 million in 2020, primarily due to the increase in our taxable income.

Profit for the Year and Net Profit Margin

As a result of the foregoing, we recorded a profit of RMB60.3 million in 2020, compared to a profit of RMB41.9 million in 2019. Our net profit margin increased from 16.7% in 2019 to 17.8% in 2020 mainly due to the increase in our gross margin attributable to our improved efficiency as our business expanded.

DISCUSSION OF CERTAIN KEY CONSOLIDATED BALANCE SHEETS ITEMS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	223	409	2,140	2,855
Right-of-use assets	496	959	6,492	5,633
Intangible assets	11,767	25,840	29,274	53,949
Contract costs	—	—	1,005	803
Deferred tax assets	821	1,081	1,325	3,163
	13,307	28,289	40,236	66,403
CURRENT ASSETS				
Inventories	10,396	4,301	—	—
Loan receivables	17,264	—	—	—
Trade and other receivables and deposits	96,932	140,188	166,129	203,584
Contract costs	22,170	20,802	9,496	11,364
Prepayments	45,205	93,003	153,375	191,325
Bank balances and cash	11,705	104,017	214,279	198,315
	203,672	362,311	543,279	604,588
CURRENT LIABILITIES				
Trade and other payables	52,606	63,899	75,340	92,564
Financial liabilities at FVTPL	—	48,357	—	—
Lease liabilities	504	689	3,019	3,696
Bank borrowings	17,000	38,667	22,300	39,500
Contract liabilities	19,019	44,436	21,091	24,298
Income tax payable	8,685	14,968	12,451	24,189
	97,814	211,016	134,201	184,247
NET CURRENT ASSETS	105,858	151,295	409,078	420,341
TOTAL ASSETS LESS CURRENT LIABILITIES	119,165	179,584	449,314	486,744
NON-CURRENT LIABILITIES				
Lease liabilities	—	167	2,744	1,969
	—	167	2,744	1,969
NET ASSETS	119,165	179,417	446,570	484,775
CAPITAL AND RESERVES				
Share capital	9,061	9,061	7	7
Reserves	110,104	168,987	443,677	481,935
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	119,165	178,048	443,684	481,962
Non-controlling interests	—	1,369	2,886	2,813
TOTAL EQUITY	119,165	179,417	446,570	484,775

Intangible assets

Our intangible assets consist of (i) adaptation rights for novels, IP images and cartoon characters for our own use in the AR/VR marketing services and content businesses and on our AR/VR SaaS platform and (ii) computer software.

The following table sets forth a breakdown of our intangible assets as of the dates indicated:

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Adaptation rights	11,767	25,830	29,161	53,792
— Novels	10,616	11,817	7,573	6,732
— IP images	—	13,758	21,588	47,060
— Cartoon characters	1,152	256	—	—
Computer software	—	10	113	157
Total	11,767	25,840	29,274	53,949

Our intangible assets increased from RMB11.8 million as of December 31, 2019 to RMB25.8 million as of December 31, 2020, and to RMB29.3 million as of December 31, 2021, and further to RMB53.9 million as of March 31, 2022, primarily due to the increase in the adaptation rights for IP images used in our AR/VR marketing services and content businesses and on our AR/VR SaaS platform, driven by the growth of our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses. We acquire adaptation rights based on our business needs. Our adaptation rights for IP images increased from nil as of December 31, 2019 to RMB13.8 million as of December 31, 2020, and to RMB21.6 million as of December 31, 2021, and further to RMB47.1 million as of March 31, 2022, mainly to support the expansion of our AR/VR content business.

Inventories

Our inventories mainly consists of IPs for novels, videos and cartoon characters. Our inventories decreased from RMB10.4 million as of December 31, 2019 to RMB4.3 million as of December 31, 2020, and further to nil as of December 31, 2021 and March 31, 2022, primarily as we aimed to minimize our inventory risk and purchased IPs based on the needs of our customers. The decrease in our inventories is also consistent with the shift of our business focus mainly to use IPs to support our AR/VR businesses going forward rather than licensing out IPs. Our revenue from IP business contributed to 12.2%, 8.8%, 0.8% and nil to our total revenue in 2019, 2020 and 2021, and the three months ended March 31, 2022, respectively.

Contract costs

Our contract costs comprise (i) incremental costs to obtain contracts capitalized in relation to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into agreements for our AR/VR SaaS business and (ii) costs to fulfill contracts capitalized in relation to the setup cost to provide our AR/VR content.

The following table sets forth details of our contract costs as of the dates indicated:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Incremental costs to obtain contracts	—	—	3,803	2,552
Costs to fulfill contracts				
— Setup cost	22,170	20,802	5,693	8,812
Total	22,170	20,802	9,496	11,364

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Incremental costs to obtain contracts	—	—	1,005	803

The incremental sales commissions are costs of obtaining a revenue contract with customers that would not have incurred if the revenue contract had not been obtained. We recognized such costs as an asset in accordance with IFRS 15 in the consolidated statements of financial position as these costs are expected to be recovered. The contract cost is subsequently amortized to cost of revenue in the profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The amount of contract acquisition costs recognized in profit or loss in 2021 and the three months ended March 31, 2022 was RMB2.4 million and RMB1.4 million, respectively.

As for the setup costs, we purchased PGC video materials for the purpose of processing them into AR/VR content products to fulfill AR/VR content revenue contracts. These costs relate directly to certain revenue contracts, generate resources for our Group that will be used in satisfying performance obligations of certain revenue contracts in the future, and are expected to be recovered. Hence, these costs should be recognized as contract costs in accordance with IFRS 15 and are subsequently amortized to cost of revenue in the profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The amount of costs to fulfill contracts recognized in profit or loss in 2019, 2020 and 2021, and the three months ended March 31, 2022 was RMB7.5 million, RMB36.8 million, RMB44.5 million and RMB5.5 million, respectively.

Our contract costs remained relatively stable at RMB20.8 million as of December 31, 2020 as compared to RMB22.2 million as of December 31, 2019. Our contract costs decreased from RMB20.8 million as of December 31, 2020 to RMB10.5 million as of December 31, 2021, primarily due to a decrease in the setup costs in relation to our AR/VR content business as the customer accepted a number of AR/VR content projects in relation to which the costs to fulfill contracts were recognized, partially offset by an increase in the incremental sales commissions to agents in relation to our AR/VR SaaS as we expanded our AR/VR SaaS business. Our contract costs increased from RMB10.5 million as of December 31, 2021 to RMB12.2 million as of March 31, 2022, primarily due to the increase in the setup costs in relation to our AR/VR content business driven by the growth of our AR/VR content business.

Trade and other receivables and deposits

Our trade receivables mainly relate to the amounts due from our customers who purchased our AR/VR marketing services, AR/VR content or AR/VR SaaS products. We generally grant a credit term of several working days to six months typically after we issue a VAT invoice to our customers. Our other receivables and deposits mainly consist of rental and other deposits and other receivables.

The following table sets forth details of our trade and other receivables and deposits as of the dates indicated:

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	102,224	147,619	168,856	210,523
Less: allowance for credit losses	(5,502)	(7,864)	(7,000)	(12,625)
Total trade receivables	96,722	139,755	161,856	197,898
Share issue costs	—	—	3,645	4,846
Rental and other deposits	213	435	393	752
Amounts due from shareholders	—	—	7	7
Other receivables	575	576	806	659
Less: allowance for credit losses	(578)	(578)	(578)	(578)
Total other receivables and deposits	210	433	4,273	5,686
Total	96,932	140,188	166,129	203,584

Our trade receivables increased from RMB96.7 million as of December 31, 2019 to RMB139.8 million as of December 31, 2020, and to RMB161.9 million as of December 31, 2021, and further to RMB197.9 million as of March 31, 2022, primarily due to the continual increase in revenue generated from our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, reflecting our business expansion.

Our amounts due from shareholders of RMB7,000 as of March 31, 2022 were unsecured, interest-free, repayable on demand, non-trade in nature and will be settled prior to the **[REDACTED]**.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 6 months	68,759	89,398	144,185	158,935
6 to 12 months	15,063	41,615	11,697	30,873
1 to 2 years	12,900	6,866	5,974	8,090
2 to 3 years	—	1,876	—	—
	96,722	139,755	161,856	197,898

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Years ended December 31,			Three months ended March 31,
	2019	2020	2021	2022
	(days)			
Trade receivables turnover days[1]	152	133	96	75

Notes:

1. Trade receivables turnover days for a period equals the average of the opening and closing trade receivables balance divided by revenue for the relevant period and multiplied by the number of days in the relevant period.

Our trade receivables turnover days decreased from 152 days in 2019 to 133 days in 2020, and further to 96 days in 2021 and 75 days in the three months ended March 31, 2022, primarily due to our enhanced collection management efforts and our improved customer base.

As of the Latest Practicable Date, approximately RMB149.5 million, representing approximately 71.0% of our trade receivables as of March 31, 2022, were subsequently settled. The outstanding trade receivables which remained unsettled as at the Latest Practicable Date were not subject to any disputes or legal proceedings. The following table sets forth an aging analysis of our trade receivables before making allowance for credit losses as of March 31, 2022 and amounts subsequently settled as of the Latest Practicable Date:

	As of March 31, 2022	As of the Latest Practicable Date	
	RMB'000	*RMB'000*	*%*
Within 6 months	161,852	116,812	55.5
6 to 12 months	37,459	27,046	12.8
1 to 2 years	10,112	5,627	2.7
Over 2 years	1,100	—	—
	210,523	149,485	71.0

Loan receivables

Our loan receivables of RMB17.3 million as of December 31, 2019 comprised one-off loans made on December 15, 2019 to two of our suppliers, Supplier M and Supplier B, each an Independent Third Party and, to the best knowledge, information and belief of our Directors, has no past or present relationships (including business, family, employment, financing or otherwise) with our Group, our Shareholders, our Directors or senior management, or any of their respective associates, other than the business relationship established in our ordinary course of business. For details of Supplier B, see the paragraph headed "Business — Our Suppliers". Supplier M is a PRC company mainly engaged in Internet information services and software engineering. We commenced our business relationship with Supplier M in 2019, which business cooperation ceased in mid-2020. We became acquainted with Supplier M and Supplier B at Internet conferences. We had entered into framework agreements for traffic acquisition prior to providing loans to Supplier M and Supplier B. Before providing loans to them, we obtained an understanding of the credit background of Supplier M and Supplier B and undertook an internal credit approval process. Specifically, we conducted a credit assessment on the two suppliers by way of a desktop due diligence by searching Supplier M and Supplier B on business data and investigation platforms to obtain information on their financial standing such as registered capital, operating history and legal and compliance risks. Our management held a meeting to discuss the matter and considered the proposed loans to Supplier M and Supplier B to be beneficial to us and the risk of non-payment was relatively low based on the results of our due diligence. The loans were unsecured and unguaranteed. The loans were for the suppliers' liquidity purpose, for principal amounts of RMB5.0 million and RMB12.4 million, respectively, with effective interest rates of 12% and 9.6% per annum, respectively. The loans were made to maintain good business relationship with our suppliers and we were able to earn interest at a market rate when we had working capital surplus. As advised by our PRC Legal Advisors, the above loan arrangements were in breach of the Lending General Provisions* (《中國人民銀行貸款通則》) promulgated by the PBOC in 1995 as they prohibit lending between enterprises and we may be subject to a fine in an amount of up to five times of the income derived from the loan arrangements. As our total interest income derived from loan receivables amounted to RMB1.8 million during the Track Record Period, we may face a total fine of up to RMB9.0 million for breach of the Lending General Provisions. According to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases* (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) promulgated on August 6, 2015 which was last revised on December 29, 2020, borrowing agreements are valid if extended for purposes of financing production or business operations. PRC courts will also support a company's claim for interest in respect of such a loan as long as the annual interest rate does not exceed 24%. In light of the above, our PRC Legal Advisors are of the view that the above loan arrangements do not contravene the Civil Code of the PRC* (《中華人民共和國民法典》) or related judicial interpretation, and given that the loans have been fully repaid, the risk of the PBOC imposing any penalty on us is very low. We do not expect to receive further interest income on such loan receivables as the loans were repaid in full in April 2020 and December 2020, respectively. We did not have any loan receivables as of December 31, 2020 and 2021, and March 31, 2022.

Prepayments

Our prepayments comprise prepayments for purchasing advertising traffic from media platforms and their agents, as Independent Third Parties, related to our AR/VR marketing services, prepayments for subcontracting service in connection with our AR/VR content business, prepayments for purchase of inventories, prepaid share issue costs and other prepayments. The following table sets forth details of our prepayments as of the dates indicated:

	As of December 31,			As of March 31,
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for purchasing advertising traffic	44,660	85,937	138,436	171,509
Prepayments for subcontracting service	170	6,875	13,969	16,099
Prepayments for purchase of inventories	272	—	—	—
Share issue costs	—	—	431	1,689
Other prepayments	103	191	539	2,028
Total	45,205	93,003	153,375	191,325

Our prepayments increased from RMB45.2 million as of December 31, 2019 to RMB93.0 million as of December 31, 2020, primarily due to the increase in our prepayments for purchasing advertising traffic related to our AR/VR marketing services to support and ensure steady flow of traffic for our expanding AR/VR marketing services business and as we were able to obtain traffic with a more favorable price from suppliers for bulk purchase of advertising traffic. According to iResearch, prepayment for advertising traffic to secure a steady flow of traffic is a common industry practice. Our prepayments further increased to RMB153.4 million as of December 31, 2021 and to RMB191.3 million as of March 31, 2022, primarily due to the increase in our prepayments for purchasing advertising traffic related to our AR/VR marketing services in line with the overall growth of our AR/VR marketing services business, and an increase in prepayments for outsourcing service in connection with our AR/VR content business.

Our prepayments for purchasing advertising traffic to media platforms and their agents and our prepayments for subcontracting service to subcontractors are generally not refundable upon request. According to iResearch, it is common for prepayments for purchasing advertising traffic to be non-refundable in the industry as quality advertising traffic is scarce in the market and traffic providers have strong negotiation power.

As of the Latest Practicable Date, RMB150.7 million, or approximately 78.7% of our prepayments as of March 31, 2022 had been used.

Trade and other payables

Our trade and other payables comprise (i) trade payables, (ii) other tax payable, (iii) employee compensation payable, (iv) accrued share issue costs and (v) other payables and accruals. Our trade payables mainly were the amounts due to our suppliers for subcontracting and development costs, use of materials costs and purchases of the advertising traffic.

The following table sets forth a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	45,381	45,520	44,263	60,361
Other tax payable	6,410	15,128	21,683	27,367
Employee compensation payable	810	1,574	3,049	3,210
Accrued **[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Accrued share issue costs	—	—	2,426	210
Other payables and accruals	5	1,677	78	698
Total	52,606	63,899	75,340	92,564

Our trade and other payables increased from RMB52.6 million as of December 31, 2019 to RMB63.9 million as of December 31, 2020, primarily due to the increase in our other tax payable as a result of increase in VAT driven by our overall business growth. Our trade and other payables increased from RMB63.9 million as of December 31, 2020 to RMB75.3 million as of December 31, 2021, primarily due to the increase in our other tax payable as a result of increase in VAT driven by our overall business growth and the increase in our accrued **[REDACTED]** and shares issue costs in connection with the **[REDACTED]**. Our trade and other payables increased from RMB75.3 million as of December 31, 2021 to RMB92.6 million as of March 31, 2022, primarily due to the increase in our trade payables in line with our business expansion.

The following table sets forth an aging analysis of our trade payables based on the date of billing documents as of the dates indicated:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 6 months	36,994	27,992	25,080	40,287
6 to 12 months	5,449	1,850	2,048	1,739
1 to 2 years	2,938	15,378	2,877	4,077
Over 2 years[1]	—	300	14,258	14,258
	45,381	45,520	44,263	60,361

Note:

1. The balance of trade payables aged over 2 years as of March 31, 2022, mainly represented part of our trade payables to Supplier G and such balance was unsettled as agreed by Supplier G as it was under business restructuring. Our Directors confirm that there had been no dispute or litigation on such balance as of the Latest Practicable Date.

The following table sets forth the turnover days of our trade payables for the periods indicated:

	Years ended December 31,			Three months ended March 31,
	2019	**2020**	**2021**	**2022**
		(days)		
Trade payables turnover days[1]	99	70	38	30

Note:

1. Trade payables turnover days for a period are calculated using the average of the opening and closing trade payables balance for such period divided by cost of revenue for the relevant period and multiplied by the number of days in the relevant period.

Our trade payables turnover days decreased from 99 days in 2019 to 70 days in 2020, and to 38 days in 2021, and further to 30 days in the three months ended March 31, 2022 primarily due to (i) our timely payment for the purchases to maintain good business relationship with our suppliers; and (ii) the decrease in our trade payables for purchases of the advertising traffic attributable to the increase in our prepayments for purchasing advertising traffic to secure advertising traffic.

As of the Latest Practicable Date, RMB6.3 million, or approximately 10.4% of our trade payables as of March 31, 2022 had been settled.

Contract liabilities

Our contract liabilities mainly arise from the advance payments in relation to our AR/VR marketing services, AR/VR content, AR/VR SaaS and IP products ordered by the customers while the underlying services or products are yet to be provided. These contract liabilities are not expected to involve any cash outflow.

We recognized contract liabilities of RMB19.0 million, RMB44.4 million, RMB21.1 million and RMB24.3 million as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively. Our contract liabilities fluctuated during the Track Record Period as we collected advance payments from our customers on a case-by-case basis. Our contract liabilities increased from RMB19.0 million as of December 31, 2019 to RMB44.4 million as of December 31, 2020. Our contract liabilities decreased from RMB44.4 million as of December 31, 2020 to RMB21.1 million as of December 31, 2021. Our contract liabilities increased from RMB21.1 million as of December 31, 2021 to RMB24.3 million as of March 31, 2022. In 2020 and 2021, and the three months ended March 31, 2022, we recognized revenue amounting to RMB19.0 million, RMB26.5 million and RMB7.8 million, respectively, which relate to the contract liabilities balance at the beginning of the year, accounting for 100.0%, 59.7% and 37.0% of our contract liabilities at the beginning of the year, respectively. As of the Latest Practicable Date, we recognized revenue amounting to RMB16.6 million relating to the contract liabilities balance as of March 31, 2022, accounting for 68.3% of our contract liabilities as of March 31, 2022.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Borrowings

Our borrowings comprise short-term borrowings from commercial banks in the PRC denominated in RMB. During the Track Record Period, the fixed interest rates of our bank borrowings ranged from 3.85% to 6.50% per annum except for a loan of RMB1.0 million made in 2020 with a fixed interest rate of 12.24% per annum from a private online bank and the floating interest rates of our bank borrowings ranged from 4.50% to 6.50% per annum. The fixed interest rate loan from such private online bank was used for our working capital purpose. We borrowed from the online bank as the procedures for approving and extending the loan were simple and fast, which is typical to loans from online banks. Loan agreements in respect of our borrowings from commercial banks in the PRC during the Track Record Period contained standard covenants that restricted us on, among others, the use of borrowed funds and we are required to notify and/or obtain prior written consent from the banks upon, among others, occurrence of merger, acquisition, split-up, investment in a joint venture, change of business scope, sale or disposal of material assets, corporate reorganization, significant external investments, undertaking of additional debt financing, material litigation or winding-up or bankruptcy or reduction in registered capital. As advised by our PRC Legal Advisors and confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we had not breached any material covenant under the loan agreements, nor defaulted on any loan payment.

The guarantee information of our bank borrowings are as below:

	As of December 31,			As of March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed by:				
Third-party financial guarantee companies[(1)]	12,000	23,000	6,000	1,500
Mr. Wang[(2)]	—	5,667	—	—
Mr. Wang and his close associate[(2)]	5,000	5,000	—	—
Mr. Wang and third-party financial guarantee companies[(2)]	—	5,000	—	—
	17,000	38,667	6,000	1,500

Notes:

1. The bank borrowings guaranteed by third-party financial guarantee companies amounting to RMB12.0 million, RMB13.0 million and RMB6.0 million as at December 31, 2019, 2020 and 2021 were counter guaranteed jointly by Mr. Wang, our Controlling Shareholder, and his close associate. The bank borrowings guaranteed by third-party financial guarantee companies amounting to RMB10.0 million as at December 31, 2020 were counter guaranteed by Mr. Wang. The counter guarantees by Mr. Wang and his close associate have been released during the three months ended March 31, 2022.

2. The guarantees provided were released in December 2021.

As of December 31, 2019, 2020 and 2021, March 31, 2022 and May 31, 2022, we had total borrowings of RMB17.0 million, RMB38.7 million, RMB22.3 million, RMB39.5 million and RMB31.7 million, respectively. Our borrowings increased from RMB17.0 million as of December 31, 2019 to RMB38.7 million as of December 31, 2020 primarily due to operational funding needs in line with our business expansion. Our borrowings decreased from RMB38.7 million as of December 31, 2020 to RMB22.3 million as of December 31, 2021 primarily because we obtained equity financing in 2021 from **[REDACTED]** Investors. Our borrowings increased from RMB22.3 million as of December 31, 2021 to RMB39.5 million as of March 31, 2022 primarily due to operational funding needs in line with our business expansion. Among the RMB31.7 million borrowings as of May 31, 2022, RMB13.7 million were secured but unguaranteed and RMB18.0 million were unsecured and unguaranteed. As of the Latest Practicable Date, we had unutilized banking facilities of RMB7.0 million. Except for incurring additional bank borrowings from time to time in the ordinary course of business, we currently have no material external debt financing plan before or shortly after the **[REDACTED]**.

Lease liabilities

Our lease liabilities increased from RMB0.5 million as of December 31, 2019 to RMB0.9 million as of December 31, 2020, and further increased to RMB5.8 million as of December 31, 2021, primarily attributable to our lease of new office premises to support our overall business growth. Our lease liabilities remained relatively stable at RMB5.7 million as of March 31, 2022 compared to RMB5.8 million as of December 31, 2021. The following table sets forth an analysis of our lease liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of May 31,
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Non-current	—	167	2,744	1,969	1,969
Current	504	689	3,019	3,696	3,740
Total	504	856	5,763	5,665	5,709

Financial liabilities at FVTPL

Ophyer Technology entered into share subscription agreements with certain **[REDACTED]** Investors and issued four rounds of shares with preferred rights or preferred shares in 2020 and 2021. For further details, see Note 26 in the Accountants' Report in Appendix I to this document. In July 2021, Ophyer Technology entered into supplemental agreements with certain **[REDACTED]** Investors of three rounds of shares with preferred rights. According to the supplemental agreements, the preferred rights of the shares related to our Group were terminated. All the preferred shares were converted into ordinary shares in December 2021.

We have engaged an independent valuer to use the discounted cash flow method and the scenario-based analysis to determine the underlying shares' value of Ophyer Technology and the fair value of the performance compensation rights and performed an equity allocation based on Black-Scholes model to arrive at the fair value of the shares with preferred rights as of the date of issuance and at the end of each reporting period. As of December 31, 2020 and 2021, fair value of the shares with preferred rights and preferred shares amounted to RMB48.4 million and nil respectively, resulting in a fair value loss of RMB1.4 million and RMB21.1 million in 2020 and 2021, respectively.

In respect of the valuation of level 3 financial liabilities at FVTPL, with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by the SFC in May 2017 (the "**Guidance**") applicable to directors of companies listed on the Stock Exchange, our Directors adopted the following procedures: (i) engaged an independent valuer (the "**Valuer**") to appraise the fair value of the shares with preferred rights for rounds A, A+ and B financing and assessed the Valuer's appropriate qualification and recent experience in the valuation of similar instrument as management's expert; (ii) provided necessary financial information to the Valuer for the Valuer to determine the fair value, and discussed with the Valuer on relevant assumptions including but not limited to the discount rate; (iii) assessed and reviewed the valuation reports prepared by the Valuer; (iv) considered the relevant information in assessing the financial data and assumptions including but not limited to the discount rate and performed valuation on the fair value of the preferred shares; and (v) performed internal valuation calculation for round C financing based on the financial data, assumption and methods. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer and our management is fair and reasonable, and the level 3 fair value measurement consisted of shares with preferred rights and preferred shares has been properly prepared.

The details on the fair value measurement of the financial liabilities at FVTPL, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of the unobservable inputs to the fair values, are disclosed in Note 26 and Note 33 in the Accountants' Report in Appendix I to this document. The Reporting Accountants have performed their work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole and its opinion on the historical financial information of our Group for the Track Record Period as a whole is set out on pages I-1 to I-3 of Appendix I to this document.

The **[REDACTED]** has (i) reviewed the valuation reports prepared by the Valuer for the appraisal of fair value of the shares with preferred rights for rounds A, A+ and B financing, the internal valuation calculation prepared by our management for the fair value of the preferred shares for round C financing, the Accountant's Report and the relevant documents provided by our Company; (ii) discussed with our management, the Valuer and the Reporting Accountants on the work done and valuation standard; and (iii) conducted due diligence interviews with each of the Valuer and the **[REDACTED]** investors. Having considered the work performed by our Directors, the unqualified opinion on the historical financial information of our Group as a whole issued by the Reporting Accountants and included in Appendix I to this document and the above due diligence performed, nothing has come to the **[REDACTED]** attention that would cause the **[REDACTED]** to be unsatisfied with the valuation analysis performed by our Company and the Valuer on the level 3 fair value measurement consisted of shares with preferred rights and preferred shares.

Contingent liabilities

We did not have any material contingent liabilities as of December 31, 2019, 2020 and 2021, March 31, 2022 and May 31, 2022, respectively.

Except as disclosed above and apart from normal trade and other payables, intra-group liabilities and tax payable, as of May 31, 2022, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since May 31, 2022 and up to the Latest Practicable Date.

NET CURRENT ASSETS

The following table sets forth the components of our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of May 31,
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Inventories	10,396	4,301	—	—	—
Loan receivables	17,264	—	—	—	—
Trade and other receivables and deposits	96,932	140,188	166,129	203,584	294,718
Contract costs	22,170	20,802	9,496	11,364	10,663
Prepayments	45,205	93,003	153,375	191,325	283,534
Bank balances and cash	11,705	104,017	214,279	198,315	57,516
Total current assets	**203,672**	**362,311**	**543,279**	**604,588**	**646,431**
Trade and other payables	52,606	63,899	75,340	92,564	77,372
Financial liabilities at FVTPL	—	48,357	—	—	—
Lease liabilities	504	689	3,019	3,696	3,740
Bank borrowings	17,000	38,667	22,300	39,500	31,700
Contract liabilities	19,019	44,436	21,091	24,298	53,632
Income tax payable	8,685	14,968	12,451	24,189	34,005
Total current liabilities	**97,814**	**211,016**	**134,201**	**184,247**	**200,449**
Net current assets	**105,858**	**151,295**	**409,078**	**420,341**	**445,982**

Our net current assets increased from RMB420.3 million as of March 31, 2022 to RMB446.0 million as of May 31, 2022, primarily due to an increase of RMB92.2 million in our prepayments as we purchased more advertising traffic to support the expansion of our AR/VR marketing services business and to secure traffic at a favorable price, an increase of RMB91.1 million in our trade and other receivables and deposits mainly driven by our business expansion, partially offset by a decrease of RMB140.8 million in our bank balances and cash and an increase of RMB29.3 million in contract liabilities due to the increase in advance payments from our AR/VR content business that have yet to be recognized as revenue.

Our net current assets increased from RMB409.1 million as of December 31, 2021 to RMB420.3 million as of March 31, 2022, primarily due to an increase of RMB38.0 million in our prepayments and an increase of RMB37.5 million in our trade and other receivables and deposits, partially offset by an increase of RMB17.2 million in bank borrowings, an increase of RMB17.2 million in our trade and other payables and a decrease of RMB16.0 million in our bank balances and cash.

Our net current assets increased from RMB151.3 million as of December 31, 2020 to RMB409.1 million as of December 31, 2021, primarily due to an increase of RMB110.3 million in our bank balances and cash, an increase of RMB60.4 million in our prepayments, a decrease of RMB48.4 million in our financial liabilities at FVTPL, a decrease of RMB23.3 million in our contract liabilities, an increase of RMB25.9 million in our trade and other receivables and deposits and a decrease of RMB16.4 million in our bank borrowings, partially offset by a decrease of RMB11.3 million in our contract costs and an increase of RMB11.4 million in our trade and other payables and a decrease of RMB4.3 million in our inventories.

Our net current assets increased from RMB105.9 million as of December 31, 2019 to RMB151.3 million as of December 31, 2020, primarily due to an increase of RMB92.3 million in our bank balances and cash, an increase of RMB47.8 million in our prepayments and an increase of RMB43.3 million in our trade and other receivables and deposits, partially offset by an increase of RMB48.4 million in our financial liabilities at FVTPL, an increase of RMB25.4 million in the contract liabilities, an increase of RMB21.7 million in our bank loans, a decrease of RMB17.3 million in the loan receivables and an increase of RMB11.3 million in our trade and other payables.

Our net assets increased from RMB119.2 million as of December 31, 2019 to RMB179.4 million as of December 31, 2020, primarily due to our net profit of RMB60.3 million in 2020. Our net assets further increased to RMB446.6 million as of December 31, 2021, primarily due to our net profit of RMB71.7 million in 2021 and the termination of preferred rights of the shares related to our Group and conversion of preferred shares of RMB211.1 million, partially offset by modification to financial instruments of RMB15.7 million. Our net assets further increased to RMB484.8 million as of March 31, 2022, primarily due to our net profit of RMB38.2 million in the three months ended March 31, 2022. For further information, see Consolidated Statements of Changes in Equity in the Accountants' Report as set out in Appendix I to this document.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from proceeds from our business operations, bank borrowings, and shareholder equity contribution. After the **[REDACTED]**, we intend to finance our future capital requirements through cash generated from our business operations and bank borrowings, together with the **[REDACTED]** from the **[REDACTED]**. We do not anticipate any material changes to the availability of financing to fund our operations in the future.

As of December 31, 2019, 2020 and 2021, and March 31, 2022, we had bank balances and cash of RMB11.7 million, RMB104.0 million, RMB214.3 million and RMB198.3 million, respectively. We had net current assets as of December 31, 2019, 2020 and 2021, and March 31, 2022.

Cash Flow

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

	For the year ended December 31,			For the three months ended March 31,	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Reconciliation of operating cash flows before movements in working capital to net cash from operating activities					
Operating cash flows before movements in working capital	58,275	80,079	123,039	26,596	59,759
Add:					
Changes in working capital	(27,794)	(51,035)	(80,370)	(31,118)	(71.642)
Income tax paid	(4,854)	(4,096)	(18,184)	(6,563)	(722)
Net cash (used in)/from operating activities	**25,627**	**24,948**	**24,485**	**(11,085)**	**(12,605)**
Net cash (used in)/from investing activities	(22,912)	1,450	(16,898)	(50,190)	(16,095)
Net cash from financing activities	5,985	65,914	102,680	21,471	12,756
Net increase/(decrease) in cash and cash equivalents	8,700	92,312	110,267	(39,804)	(15,944)
Cash and cash equivalents at the beginning of the year/period	3,005	11,705	104,017	104,017	214,279
Effect of foreign exchange rate changes	—	—	(5)	—	(20)
Cash and cash equivalents at the end of the year/period	11,705	104,017	214,279	64,213	198,315

Net Cash (used in)/from Operating Activities

Our cash from operating activities consists primarily of revenue from our AR/VR marketing services, AR/VR content, AR/VR SaaS, IP and other businesses. Our cash used in operating activities consists primarily of purchase of advertising traffic, use of materials costs, subcontracting and development costs and staff costs. Cash flow generated from/(used in) operating activities reflects (i) our profit or loss before tax adjusted for non-cash and non-operating items, such as depreciation and amortization, and (ii) the effects of changes in our working capital and income tax paid.

In the three months ended March 31, 2022, we used RMB12.6 million of net cash in our operating activities. Our net cash used in operating activities is calculated by adjusting our profit before tax of RMB48.8 million by non-cash and other items in a net amount of RMB10.9 million to arrive at an operating profit before working capital changes of RMB59.8 million. The amount is further adjusted by negative changes in working capital and income tax paid of RMB0.7 million. Negative changes in working capital mainly include (i) an increase in trade and other receivables and deposits of RMB41.9 million due to the growth of our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, and (ii) an increase in prepayments of RMB37.6 million mainly for purchasing advertising traffic in connection with our AR/VR marketing services and for purchasing outsourcing services in connection with our AR/VR content business expansion, which were partially offset by an increase in trade and other payables of RMB6.3 million due to the increase in our trade payables in line with our business expansion.

In 2021, we generated RMB24.5 million in net cash from our operating activities. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB87.1 million by non-cash and other items in a net amount of RMB35.9 million to arrive at an operating profit before working capital changes of RMB123.0 million. The amount is further adjusted by negative changes in working capital and income tax paid of RMB18.2 million. Negative changes in working capital mainly include (i) an increase in prepayments of RMB60.4 million mainly for purchasing advertising traffic in connection with our AR/VR marketing services and for purchasing outsourcing services in connection with our AR/VR content business expansion, (ii) a decrease in contract liabilities of RMB23.3 million primarily as we completed the performance of certain AR/VR marketing services and delivered AR/VR content and IPs in relation to the contract liabilities in 2021, (iii) an increase in trade and other receivables and deposits of RMB25.9 million due to the growth of our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, which were partially offset by (i) a decrease in contract costs of RMB10.3 million mainly driven by a decrease in the setup cost to provide our AR/VR content, and (ii) an increase in trade and other payables of RMB11.4 million due to the increase in our other tax payable as a result of increase in VAT driven by our overall business growth and the increase in our accrued **[REDACTED]** and shares issue costs in connection with the **[REDACTED]**.

In 2020, we generated RMB24.9 million in net cash from our operating activities. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB70.4 million by non-cash and other items in a net amount of RMB9.7 million to arrive at an operating profit before working capital changes of RMB80.1 million. The amount is further adjusted by negative changes in working capital and income tax paid of RMB4.1 million. Negative changes in working capital mainly included (i) an increase in prepayments of RMB47.8 million mainly for purchasing advertising traffic in connection with our AR/VR marketing services and (ii) an increase in trade and other receivables of RMB45.6 million due to the growth of our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, which were partially offset by (i) an increase in contract liabilities of RMB25.4 million primarily due to an increase in advance payments from our customers in relation to our AR/VR marketing services, (ii) an increase in trade and other payables of RMB9.5 million due to the increase in our purchase of advertising traffic, and (iii) a decrease in inventories of RMB6.1 million as a result of the decrease in our purchases of inventories.

In 2019, we generated RMB25.6 million in net cash from our operating activities. Our net cash generated from operating activities is calculated by adjusting our profit before tax of RMB48.3 million by non-cash and other items in a net amount of RMB9.9 million to arrive at an operating profit before working capital changes of RMB58.3 million. The amount is further adjusted by negative changes in working capital and income tax paid of RMB4.9 million. Negative changes in working capital mainly included (i) an increase in prepayments of RMB40.7 million, for purchasing advertising traffic in connection with our AR/VR marketing services, (ii) an increase in contract costs of RMB22.2 million due to an increase in the setup cost to provide our AR/VR content, and (iii) a decrease in trade and other payables of RMB3.9 million due to our timely settlement of purchases of advertising traffic in connection with our AR/VR marketing services, which were partially offset by (i) an increase in contract liabilities of RMB19.0 million as a result of an increase in advance payments from our customers in relation to our AR/VR content and AR/VR marketing services, (ii) a decrease in inventories of RMB13.1 million as a result of the decrease in our purchases of inventories, and (iii) a decrease in trade and other receivables of RMB6.8 million primarily due to our enhanced customer credit management.

Net Cash (Used in)/from Investing Activities

Our cash used in investing activities consists primarily of purchase of intangible assets, loans to our suppliers, and purchase of property, plant and equipment. Our cash generated from investing activities consists primarily of proceeds from disposals of intangible assets, the repayment of loans by our suppliers and interest income from loans to our suppliers.

In the three months ended March 31, 2022, our net cash flows used in investing activities were RMB16.1 million, primarily attributable to the (i) purchase of intangible assets of RMB15.1 million in relation to our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, and (ii) purchase of property, plant and equipment of RMB1.1 million.

In 2021, our net cash flows used in investing activities were RMB16.9 million, primarily attributable to (i) purchase of intangible assets of RMB15.1 million in relation to our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, and (ii) purchase of property, plant and equipment of RMB2.6 million. This was partially offset by our interest income of RMB0.8 million.

In 2020, our net cash flows generated from investing activities were RMB1.5 million, primarily attributable to (i) a decrease in loan receivables of RMB17.5 million due to the repayment of one-off loans that we provided to two of our suppliers in 2019, (ii) proceeds from our disposal of intangible assets of RMB2.0 million, and (iii) interest income of RMB1.4 million. This was partially offset by (i) purchase of intangible assets of RMB19.0 million in relation to our AR/VR marketing services, AR/VR content and AR/VR SaaS businesses, and (ii) purchase of property, plant and equipment of RMB0.4 million.

In 2019, our net cash flows used in investing activities were RMB22.9 million, primarily attributable to (i) an increase of loan receivables of RMB17.5 million, which were in relation to one-off loans that we provided to two of our suppliers, and (ii) purchase of intangible assets of RMB5.5 million. This was partially offset by our interest income of RMB0.1 million.

Net Cash from Financing Activities

Our cash generated from financing activities consists primarily of proceeds from bank borrowings and proceeds from issue of shares. Our cash used in financing activities consists primarily of our repayment of bank borrowings, payment of interest on bank borrowings and repayment of lease liabilities.

In the three months ended March 31, 2022, our net cash flows generated from financing activities were RMB12,8 million, primarily attributable to the proceeds from bank borrowings of RMB21.7 million. This was partially offset by (i) our repayment of bank borrowings of RMB4.5 million, and (ii) payment of shares issue costs of RMB3.8 million.

In 2021, our net cash flows generated from financing activities were RMB102.7 million, primarily attributable to (i) the proceeds from issuance of shares of RMB125.5 million from **[REDACTED]** Investors, (ii) the proceeds from bank borrowings of RMB24.7 million. This was partially offset by (i) our repayment of bank borrowings of RMB41.1 million, (ii) our repayment of lease liabilities of RMB3.4 million, and (iii) payment of interest of RMB1.8 million.

In 2020, our net cash flows generated from financing activities were RMB65.9 million, primarily attributable to (i) the proceeds from issuance of shares of RMB47.0 million from **[REDACTED]** Investors, (ii) the proceeds from bank borrowings of RMB44.4 million. This was partially offset by (i) our repayment of bank borrowings of RMB22.7 million, (ii) payment of interest of RMB1.9 million, and (iii) our repayment of lease liabilities of RMB0.8 million.

In 2019, our net cash flows generated from financing activities were RMB6.0 million, primarily attributable to the proceeds from bank borrowings of RMB19.0 million. This was partially offset by (i) our repayment of bank borrowings of RMB11.0 million, (ii) our repayment of lease liabilities of RMB1.0 million, and (iii) payment of interest of RMB1.1 million.

WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that after taking into account the existing financial resources available to us, including cash flow from operating activities, bank balances and cash, bank borrowings, unutilized banking facilities and the estimated **[REDACTED]** from the **[REDACTED]**, we have sufficient working capital for our present requirements, that is, for at least the next 12 months from the date of this document.

KEY FINANCIAL RATIOS

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

	As of/For the year ended December 31,			As of/For the three months ended March 31,
	2019	2020	2021	2022
Gross margin(1)	30.0%	30.9%	29.5%	32.0%
Net profit margin(2)	16.7%	17.8%	12.0%	16.7%
Return on equity(3)	42.6%	40.4%	22.9%	N/A
Return on assets(4)	22.7%	19.8%	14.7%	N/A
Current ratio(5)	2.1	1.7	4.0	3.3
Gearing ratio(6)	4.9%	Net cash	Net cash	Net cash

Notes:

1. Gross margin equals gross profit divided by revenue for the period and multiplied by 100%. See the paragraph headed "Description of Major Components of Our Results of Operations — Gross Profit and Gross Margin" in this section for more details on our gross margins.

2. Net profit margin equals profit for the period divided by revenue for the period and multiplied by 100%. See the paragraphs headed "— Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021", "— Year Ended December 31, 2021 Compared to Year Ended December 31, 2020" and "— Year Ended December 31, 2020 Compared to Year Ended December 31, 2019" in this section for more details on our net profit margins.

3. Return on equity equals profit for the period divided by average balance of total equity at the beginning and the end of that period, then multiplied by 100%.

4. Return on assets equals profit for the period divided by average balance of total assets at the beginning and the end of that period, then multiplied by 100%.

5. Current ratio equals total current assets divided by total current liabilities as of the dates indicated.

6. Gearing ratio equals net debt divided by total equity as of the end of the period and multiplied by 100%. Net debt equals bank borrowings and lease payables less bank balances and cash.

Return on Equity

Our return on equity for 2019, 2020 and 2021 was 42.6%, 40.4% and 22.9%, respectively. Our return on equity decreased from 42.6% in 2019 to 40.4% in 2020, primarily attributable the increase in our equity resulting from the increased retained earnings. Our return on equity further decreased from 40.4% in 2020 to 22.9% in 2021, primarily because our equity increased at a higher rate than our profit for the year. This calculation is not applicable for the three months ended March 31, 2022 as calculation using profit for the three months ended March 31, 2022 is not comparable to the one using profit for the year and the profit for the three months ended March 31, 2022 cannot be meaningfully annualized.

Return on Assets

Our return on assets for 2019, 2020 and 2021 was 22.7%, 19.8% and 14.7%, respectively. Our return on assets decreased from 22.7% in 2019 to 19.8% in 2020 and further decreased to 14.7% in 2021, primarily due to the increase in total assets which was further attributable to the increased bank balances for capital raised from equity financing. This calculation is not applicable for the three months ended March 31, 2022 as calculation using profit for the three months ended March 31, 2022 is not comparable to the one using profit for the year and the profit for the three months ended March 31, 2022 cannot be meaningfully annualized.

Current Ratio

Our current ratio as of December 31, 2019, 2020 and 2021 and March 31, 2022 was 2.1, 1.7, 4.0 and 3.3, respectively. Our current ratio decreased from 2.1 as of December 31, 2019 to 1.7 as of December 31, 2020, primarily due to an increase in our current liabilities particularly in our financial liabilities at FVTPL and contract liabilities. Our current ratio increased from 1.7 as of December 31, 2020 to 4.0 as of December 31, 2021, primarily due to an increase in our current assets, particularly in our bank balances and cash and prepayments. Our current ratio decreased from 4.0 as of December 31, 2021 to 3.3 as of March 31, 2022, primarily due to an increase in our current liabilities particularly in our bank borrowings and trade and other payables.

Gearing ratio

Our gearing ratio as of December 31, 2019 was 4.9%. This calculation is not applicable as of December 31, 2020 and 2021 and March 31, 2022 as we were in net cash position.

CAPITAL EXPENDITURES

Our capital expenditures consist of expenditures on (i) intangible assets, including our software and adaptation rights of IPs, (ii) right-of-use assets for leased offices and (iii) property, plant and equipment for servers, computer equipment and office furniture.

The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Intangible assets	5,179	20,767	14,270	28,362
Right-of-use assets	—	1,185	8,279	—
Property, plant and equipment	31	338	2,301	975
Total	5,210	22,290	24,850	29,337

In 2019, 2020 and 2021, and the three months ended March 31, 2022, our capital expenditures related primarily to the acquisition of intangible assets. We funded these expenditures mainly with cash generated from our operations.

We estimate that our capital expenditures for the year ending December 31, 2022 will be used primarily for our purchase of property, plant and equipment and intangible assets. We expect to fund these capital expenditures through a combination of cash generated from our operations, bank borrowings, unutilized banking facilities and the net proceeds received from the **[REDACTED]**.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Mr. Wang, our Controlling Shareholder, made two short-term cash advances in a total amount of RMB9.3 million to us in 2020, both of which were interest-free, unsecured, repayable on demand and were fully repaid by us by December 31, 2020. Mr. Wang made the cash advances to enable us to meet our temporary funding needs to repay part of our bank loans due at that time so that we were able to maintain sufficient general working capital and liquidity. Our Directors are of the view that each of the related party transactions set out in Note 35 to the Accountants' Report in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

Our activities expose us to a variety of financial risks, mainly market risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Market Risk

Our activities expose us primarily to the financial risks of interest rates and other price risk.

Interest rate risk management

We are exposed to fair value interest rate risk in relation to fixed-rate loan receivables, fixed-rate bank borrowings, lease liabilities and financial liabilities at FVTPL. We are also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates based on or by reference to the LPR.

We currently do not have interest rate hedging policy. However, management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for bank borrowings at variable rate as of December 31, 2019, 2020 and 2021, and March 31, 2022. The analysis is prepared assuming the financial instruments outstanding as of December 31, 2019, 2020 and 2021, and March 31, 2022 were outstanding for the whole year or period. The bank balances are excluded from the sensitivity analysis as our management considers that the interest rate fluctuating is insignificant.

If variable rate bank borrowings had been 50 basis points higher/lower and all other variables were held constant, our post-tax profit for the year would decrease/increase by approximately RMB43,000, RMB42,000, nil and RMB9,000 for the years ended December 31, 2019, 2020 and 2021, and the three months ended March 31, 2022.

Other price risk

We are exposed to price risk in respect of our shares with preferred rights and preferred shares measured as financial liabilities at FVTPL, fair value of which are affected by changes in our equity value. For further details on sensitive analysis, see Note 33 in the Accountants' Report in Appendix I to this document.

Credit Risk

As of December 31, 2019, 2020 and 2021 and March 31, 2022, our maximum exposure to credit risk which will cause a financial loss to us is due to failure to discharge an obligation by the counterparties. Our credit risk is mainly associated with bank balances and cash, trade and other receivables and deposits, and loan receivables.

In order to minimize the credit risk, our management continuously monitors the credit quality and financial conditions of the debtors to ensure that follow-up action is taken to recover overdue debts.

To manage risk arising from receivable balances, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of our counterparties. The credit period granted to the customers and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

We have concentration of credit risk as 0.9%, 0.0%, 0.3% and 2.9% of the total trade receivables were due from our largest customer as of December 31, 2019, 2020 and 2021 and March 31, 2022, 37.9%, 17.0%, 32.4% and 15.3% of the total trade receivables were due from our five largest customers as of December 31, 2019, 2020 and 2021 and March 31, 2022, respectively.

We re-assess lifetime ECL for trade receivables arising from contracts with customers to ensure that adequate impairment losses are made for significant increases in the likelihood or risk of a default occurring. The ECL on trade receivables are individually assessed for debtors with significant increases in credit risk or credit-impaired and collectively using a provision matrix with appropriate groupings for the remaining balance. As of December 31, 2019, 2020 and 2021 and March 31, 2022, trade receivables with gross carrying amounts of nil, RMB7.0 million, RMB1.1 million and RMB10.3 million were credit impaired and assessed individually. The trade receivables that were credit impaired and assessed individually during the Track Record Period were mainly with customers whose trade receivables were long outstanding and customers who showed signs of credit risk including involvement in litigations.

For further details of our credit risk, see Note 33 in the Accountants' Report in Appendix I to this document.

Liquidity Risk

In the management of liquidity risk, our management monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of unexpected fluctuations in cash flows. For further details of our liquidity risk, see Note 33 in the Accountants' Report in Appendix I to this document.

DIVIDENDS

Our Company is a holding company incorporated under the laws of the Cayman Islands. We do not have a pre-determined dividend payout ratio. Any dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restriction and other factors our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our Memorandum of Association and Articles of Association and the Cayman Companies Act. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our Cayman legal advisor, Ogier, no dividends may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium, provided that in no circumstances may the dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As such, a position of net liabilities or accumulated losses may not necessarily restrict us from declaring and paying dividends to our Shareholders.

The payment and amount of any future dividends 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 IFRS.

During the Track Record Period, we did not declare or pay any dividend.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on June 24, 2021 and has not carried out any business since the date of incorporation. As of March 31, 2022, our Company did not have any distributable reserves.

[REDACTED]

The total **[REDACTED]** borne or to be borne by us are estimated to be approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) (including (i) **[REDACTED]** of approximately **[REDACTED]**, and (ii) non-**[REDACTED]** related expenses of approximately **[REDACTED]**, which consist of fees and expenses of legal advisors and reporting accountants of approximately **[REDACTED]** and other fees and expenses of approximately **[REDACTED]**), accounting for approximately **[REDACTED]** of the gross proceeds of the **[REDACTED]**, assuming an **[REDACTED]** of **[REDACTED]** per Share, which is the mid-point of the indicative **[REDACTED]** stated in this document and assuming that the **[REDACTED]** is not exercised. We expect that approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) will be charged to our statements of profit or loss and other comprehensive income as **[REDACTED]**, and approximately **[REDACTED]** (equivalent to approximately **[REDACTED]**) will be accounted for as a deduction from equity upon the **[REDACTED]**. The **[REDACTED]** above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such **[REDACTED]** to have a material adverse impact on our results of operation for the year ending December 31, 2022.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for illustrative purposes only, and is set out below to illustrate the effect of the **[REDACTED]** on the consolidated net tangible assets of our Group attributable to the owners of our Company as at March 31, 2022 as if the **[REDACTED]** had taken place on March 31, 2022.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group attributable to owners of our Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of the Company had the **[REDACTED]** been completed as of March 31, 2022 or any future date.

	Audited Consolidated Net Tangible Assets of our Group Attributable to Owners of our Company as of March 31, 2022[1]	Estimated Net [REDACTED] from the [REDACTED][2]	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets Attributable to Owners of our Company as of March 31, 2022	Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets of our Group attributable to owners of our Company as of March 31, 2022 per Share[3][4]	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an **[REDACTED]** Price of **[REDACTED]** per **[REDACTED]** Share	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** Price of **[REDACTED]** per **[REDACTED]** Share	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Notes:

1. The audited consolidated net tangible assets of our Group attributable to owners of our Company as of March 31, 2022 is extracted from the Accountants' Report set out in Appendix I to this document, which has been calculated based on the audited consolidated net assets of our Group attributable to owners of our Company as of March 31, 2022 of **[REDACTED]** less intangible assets as of March 31, 2022 of approximately **[REDACTED]**.

2. The estimated **[REDACTED]** from the issue of the **[REDACTED]** pursuant to the **[REDACTED]** are based on **[REDACTED]** **[REDACTED]** at the **[REDACTED]** of lower limit and upper limit of **[REDACTED]** and **[REDACTED]** per **[REDACTED]**, respectively, after deduction of the estimated **[REDACTED]** and fees and other related expenses incurred and to be incurred by our Company (excluding **[REDACTED]** which have been charged to profit or loss up to March 31, 2022). The calculation of such estimated **[REDACTED]** does not take into account any Shares which may be allotted and issued pursuant to the exercise of **[REDACTED]**, or any Shares which may be issued pursuant to the exercise of options which may be granted under the **[REDACTED]** Share Option Scheme, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this document.

   The estimated **[REDACTED]** from the **[REDACTED]** are converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1 to RMB0.8110, which was the exchange rate published by the People's Bank of China ("PBOC rate") prevailing on March 31, 2022. No representation is made that Hong Kong dollars amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of a total of **[REDACTED]** Shares (including Shares in issue as of the date of this document, Shares to be issued pursuant to the **[REDACTED]** and Shares to be issued pursuant to the **[REDACTED]**). It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the **[REDACTED]**, or any Shares which may be issued pursuant to the exercise of options which may be granted under the **[REDACTED]** Share Option Scheme, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described in the section headed "Share Capital" in this document.

4. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is converted into Hong Kong dollars at a rate of RMB0.8110 to HK$1.00, which was the PBOC rate prevailing on March 31, 2022. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of our Company as of March 31, 2022 to reflect any operating result or other transactions of our Group entered into subsequent to March 31, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since March 31, 2022, being the end date of our latest audited historical financial information, and there has been no event since March 31, 2022 that would materially affect the information shown in the Accountants' Report set out in Appendix I.

DISCLOSURE REQUIRED UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.