360 LUDASHI HOLDINGS LIMITED
360魯大師控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 3601

2022 ANNUAL REPORT

OUR MISSION IS

to let users fully understand and enjoy the convenience and fun brought by intelligent hardware

CONTENTS

CORPORATE INFORMATION

THE BOARD OF DIRECTORS

Executive Directors

Mr. Tian Ye *(Chairman)*
Mr. He Shiwei

Non-executive Directors

Mr. Sun Chunfeng
Mr. Liu Wei
Mr. Zhao Dan

Independent non-executive Directors

Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu

AUDIT COMMITTEE

Mr. Zhang Ziyu *(Chairman)*
Mr. Li Yang
Mr. Wang Xinyu

NOMINATION COMMITTEE

Mr. Tian Ye *(Chairman)*
Mr. Li Yang
Mr. Wang Xinyu

REMUNERATION COMMITTEE

Mr. Wang Xinyu *(Chairman)*
Mr. Tian Ye
Mr. Zhang Ziyu

COMPANY SECRETARY

Mr. Cheng Ching Kit

AUTHORIZED REPRESENTATIVES

Mr. Tian Ye
Mr. Cheng Ching Kit

AUDITOR

Deloitte Touche Tohmatsu
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
35/F, One Pacific Place, 88 Queensway
Hong Kong

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

11/F, 11-24 Tianfu Software Site E1
1268 Tianfu Avenue, High-tech Zone
Chengdu, Sichuan Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CORPORATE INFORMATION

LEGAL ADVISERS

As to Hong Kong laws:
Jingtian & Gongcheng LLP
Suites 3203-3207, 32/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:
Llinks Law Offices
19F, One Lujiazui
68 Yin Cheng Road Middle
Shanghai, PRC

As to Cayman Islands laws:
Conyers Dill & Pearman
Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKER

China Merchants Bank Chengdu Tianfudadao
Sub-Branch

STOCK CODE

3601

COMPANY WEBSITE

www.ludashi.com

CHAIRMAN'S STATEMENT

A LETTER TO SHAREHOLDERS

Dear Shareholders:

I would like to express my cordial thanks to all Shareholders for your support over the past three years. The COVID-19 epidemic (the "**Epidemic**") has caused harm to global economy. Although we encountered challenges and pressures in the past year, our main business has developed tenaciously. In 2022, Ludashi's revenue can be described as loses on one side and gains on the other. On behalf of the Board, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2022 (the "**Reporting Period**"), and I would like to extend my sincere gratitude to all Shareholders and express my appreciation to the staff and professional advisers of the Company for their unremitting efforts.

Firstly, I am pleased to announce that in 2022, the Company recorded a total revenue of approximately RMB359.1 million, representing an increase of approximately 6.3% as compared to that of 2021, of which the revenue from our online advertising services business was approximately RMB181.7 million, representing a decrease of approximately 10.9% as compared to that of 2021, the revenue from our online game platforms was approximately RMB173.4 million, representing an increase of approximately 52.5% as compared to that of 2021, the revenue from our operation of exclusive licensed online game business was approximately RMB3.8 million, representing a decrease of approximately 80.6% as compared to that of 2021 and the revenue from our electronic devices sales business was approximately RMB0.2 million, representing a decrease of approximately 72.6% as compared to that of 2021. Our net profit attributable to parent increased by approximately 9.9% to RMB60.5 million as compared to that of 2021.

Ludashi completed the iteration of AI MARK 3.0 engine on both PC devices and mobile devices in 2022. After two years, the performance test of Ludashi's traditional products has achieved great improvement in accuracy. By developing valuable APP tools for mobile devices, we have achieved a year-on-year increase in the revenue of domestic mobile devices business for the year. At the same time, we have established an exclusive operation strategy for overseas products which has improved our profit margin.

The intelligent hardware benchmarking laboratory of Ludashi achieved an increase in revenue in 2022 and gained recognition from more industry brands. The laboratory has made progress in test methods, test equipment, content production, etc. We have gradually established an authoritative hardware benchmarking system through technical conferences and year-end awards. We are determined to become the most honored hardware and system benchmarking and monitoring solution provider in China.

CHAIRMAN'S STATEMENT

The loss on our business for recent years was primarily due to the shrinking budgets of advertisers in the PRC. However, we are confident in the future of China's economy, and believe that the improved overall economic environment will bring the recovery of the industry. The online game business supported our revenue scale despite the frustration of online traffic monetization business. Since 2021, we increased our input on the promotion of online game platforms, and the revenue of web game module continued to increase. Operation of exclusive licensed online game business also gradually developed and self-developed game is a module we highly valued. We plan to launch three exclusive licensed online games in 2023. We will try our best to make up for the decrease in revenue generated from our online traffic monetization business through multi-channel business promotion in order to maintain the return level of our Shareholders.

On behalf of all members of 360 Ludashi, I would like to express my sincere appreciation to you for your consistent support, to our staff, all Shareholders and professionals for their great support.

Tian Ye
Chairman
Hong Kong
31 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

In 2022, although China announced to relax the prevention and control measures for the Epidemic at the end of 2022, most of the year was still affected by the Epidemic, and certain major cities in China successively adopted the lockdown measures to cope with the recurring Epidemic, which resulted in material adverse impact on the annual economic performance of China and brought continuous challenges to the Group. The advertising promotion budgets of clients from PCs of the Group have decreased significantly since 2020, and the number of advertisements and the amount of advertising expenses of these clients have yet to recover to the level before the Epidemic, thus resulting in the continued decrease in the income of our online advertising services from PCs. Nonetheless, through developing the online game platforms business, expanding the overseas business for mobile devices, and continuously enriching our domestic product matrix for mobile devices and exploring enterprise business segment, the Group obtained new growth points and achieved an increase in the net profit of the Group.

In 2022, the Group continued to focus on the development of its online traffic monetization business. Despite severe external challenges caused by the Epidemic, our online advertising services business continue to explore new business directions and profit growth points by updating and iterating our products and developing and releasing new products. As for our online game business including the online game platforms and operation of exclusive licensed online game business, we acquired new gamers and expanded our user base by continuously launching attractive new online games and marketing and promotion campaigns.

We develop a series of PC and mobile device utility software which are offered to users free of charge in exchange for online traffic that we monetize by online advertising and online game business. In particular, our utility software, "Ludashi Software", a well-known brand and software in China and elsewhere in the world specializing in PC/smart phone hardware and system benchmarking and monitoring, has accumulated a large user base through providing free download and installation. Meanwhile, we are committed to the research and development and advertising of various utility software for mobile devices in the domestic market, from which we have accumulated a vast number of active users. In 2022, due to the decrease in the Group's revenue from the PC version of Ludashi Software, we adjusted marketing strategy accordingly and reduced the promotion expenditure in this business segment, which resulted in a decrease in the number of our MAUs. As at 31 December 2022, the MAUs of all our PC and mobile device utility software amounted to approximately 104.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, the PC version of Ludashi Software launched a number of new services and functions, such as the Dashi Ranking (user hardware rating ranking), Desktop Hardware Monitoring Panel, Big File Sorting and Software Moving, and Tabx Explorexs, etc. Among them, the Dashi Ranking meets the needs of users for the ultimate performance experience of computers; the Desktop Hardware Monitoring Panel enables users to monitor computer hardware status in real time and enhance the user experience; the Big File Sorting and Software Moving solves the problem of deep data cleaning in complex computer use scenarios; and the Tabx Explorexs and other software further enhance the user experience in file management. In terms of adaptability, Ludashi Software cooperated with domestic computer hardware manufacturers to increase the identification and evaluation of their newly released computer hardware, and made the evaluation results more fair and reasonable through algorithm optimization. In addition, through the upgrade of AI mark version 3.0, the testing of the hardware capabilities of different products by Ludashi Software is more effective and reasonable. In the future, in light of the development of the industry and the performance of hardware, the Group will continue to iterate the functions of our products and provide more useful and value-adding functions and services to our users to explore more business development directions.

The Ludashi Pro software has been committed to keeping up with the needs of the market since its official release, and the Group has reached a strategic cooperation with a well-known hardware manufacturer to jointly create the Super Pro solution, providing users with a number of key software technologies, such as automatic activation, timed remote boot and out-of-band remote control. In addition, for the Ludashi Pro software, the Group has successfully entered into a cooperation agreement with well-known domestic large-scale internet company. As of 31 December 2022, the Group had completed at least 15 iterations of the version update of the Ludashi Pro software every year, and its functions have been expanded to more than 1,000 functional points in 10 major modules. Focusing on the pain points of the industry, and based on the powerful customized technology development and services, the Ludashi Pro software has been applied in more than 10 industry fields, such as e-sports hotels, computer rental industry, IT operation and maintenance, cross-border e-commerce and supply chain services, construction industry, etc.

In 2022, the online game platforms business of the Group mainly focused on expanding the purchase scale, achieving a year-on-year increase of approximately 18% in the number of newly-added users and the number of active players. At the same time, we introduced a number of more excellent online game products that are compatible with the PC, Android and iOS ports at the same time, ensuring that players can log in to the games in multiple platforms, thereby ensuring a better game experience for users, greatly improving the player retention rate and continuous payment ability, and finally greatly improving the ARPU of paying players.

MANAGEMENT DISCUSSION AND ANALYSIS

As for the operation of exclusive licensed online game business, adhering to the distribution strategy of "making diversified attempts and realizing breakthroughs in niche market", the Group has established a comprehensive distribution mechanism. From initial evaluation upon product connection, to launch of online traffic purchase test and to large scale promotion, we conduct data validation in a prompt manner to realize quick screening and have been exploring distribution strategies for high quality products. Currently, the Group focuses on role-playing game category for its domestic exclusive licensed online games and card game and business simulation game categories for overseas exclusive licensed online games. In 2022, the Group expanded our user base through launching more exclusive licensed online games, covering categories such as business operation simulation game, role-playing game, casual competitive game, card game, quadratic element game and others, and one of the games was recommended by Google Play homepage in more than 100 countries around the world. In 2023, the Group plans to launch 3 exclusive licensed online games.

In 2022, the Group continued to upgrade the evaluation engine and developed a mobile version of the ray tracing engine. At the same time, in terms of electric vehicles, we have established in-depth cooperation with well-known electric vehicle brands to build the most professional electric bicycle model library and intelligent evaluation model in China. At the end of December 2022, the Group held the 4th Annual Niujiaojian Awards Ceremony (《牛角尖年度頒獎盛典》), which garnered support from well-known brands.

For the year ended 31 December 2022, the Group recorded a total revenue of approximately RMB359.1 million, representing an increase of approximately 6.3% as compared to that of 2021, with the revenue from our online advertising services of approximately RMB181.7 million, representing a decrease of approximately 10.9% as compared to that of 2021; the revenue from our online game platforms of approximately RMB173.4 million, representing an increase of approximately 52.5% as compared to that of 2021; the revenue from the operation of exclusive licensed online game business of approximately RMB3.8 million, representing a decrease of approximately 80.6% as compared to that of 2021; and the revenue from our electronic devices sales business of approximately RMB0.2 million, representing a decrease of approximately 72.6% as compared to that of 2021. The net profit attributable to the parent company was approximately RMB60.5 million, representing an increase of approximately 9.9% as compared to that of 2021.

OUTLOOK

With China announced the relaxation of the prevention and control measures for the Epidemic at the end of 2022, the society gradually resumes its operation before the Epidemic, and China's economy will also be opened up, which will usher in a new scene. The world has been affected by the Epidemic for three years, and the economic growth of various countries has slowed down. It is expected that it will take some time for the global economy to return to the level before the Epidemic. Although the economy may not perform well in the short term, the Group will continue to face difficulties and seize new opportunities to strive to develop the online game platforms business, continuously enrich the domestic and overseas mobile product matrix and develop the business on the enterprise side, so as to realize the long-term, healthy and steady sustainable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will continue to invest heavily in research and development and operation resources in the Ludashi Pro software to achieve substantial breakthrough in the commercialization process and profitability. The Ludashi Pro software is expected to become a new business growth point of the Group. At the same time, the Group will continue to actively optimize its software products and enrich its product matrix, further expand the number of users of tools, software and online games, and enhance user stickiness. At the same time, the Group will develop innovative products by leveraging on its professional knowledge of PC, mobile device hardware, system evaluation and monitoring, strengthen its liquidity, and improve its operating income and profitability by stabilizing its relationships with suppliers, customers and users, so as to continue to create greater value for shareholders and investors of the Company.

The Group will continue to implement the following strategies to strive to become a reliable hardware expert and leading internet company:

- develop various types of online games on an on-going basis, continue to explore distribution strategies for our premium products, and keep distributing and operating our exclusive licensed online games in China and overseas;

- constantly expand the scale of promotion investment in online game business, combine the online game traffic direction business with the online game distribution business, and keep improving our competitiveness, so as to increase our operational revenue scale;

- actively negotiate with other large-scale lifestyle service platforms and e-commerce platforms for the Ludashi Pro software and the cooperation is expected to be achieved;

- continue to invest resources in building the Ludashi Pro software and continue to explore more application scenarios;

- update and iterate the PC version of Ludashi Software on an on-going basis, and proactively improve our product features to address more demands from our users;

- further improve our product quality, maintain and expand our user base, stabilize the overseas markets by strengthening our research and development capability, and enhance our brand image as a reliable hardware expert; and

- continue to attract and retain talents and professionals, and form strategic alliances with business partners and pursue investments and acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

We derived revenue from two business lines, namely online traffic monetization and electronic devices sales. The revenue of online traffic monetization is generated from online advertising services, online game platforms and operation of exclusive licensed online game business. The revenue from electronic devices sales mainly includes revenue from sales of smart accessories.

Our revenue increased by approximately 6.3% from approximately RMB337.9 million for the year ended 31 December 2021 to approximately RMB359.1 million for the year ended 31 December 2022. Such increase was mainly due to two online games launched by our online game platforms went viral and achieved excellent market responses.

The following table sets forth our segment revenue by amount and as a percentage of our revenue for the years ended 31 December 2021 and 2022:

	For the year ended 31 December			
	2022		2021	
	RMB'000	**Proportion (%)**	RMB'000	Proportion (%)
Online traffic monetization				
Online advertising services	**181,664**	**50.6**	203,858	60.4
Online game platforms	**173,432**	**48.3**	113,698	33.6
Operation of exclusive licensed online game business	**3,834**	**1.0**	19,741	5.8
Electronic devices sales				
Smart accessories sales	**172**	**0.1**	459	0.1
Certified pre-owned and factory other electronic devices sales	**–**	**–**	169	0.1
Total	**359,102**	**100.0**	337,925	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

(i) Online traffic monetization

(a) Online advertising services

Our revenue from online advertising services decreased by approximately 10.9% from approximately RMB203.9 million for the year ended 31 December 2021 to approximately RMB181.7 million for the year ended 31 December 2022. Such decrease was mainly due to the impact of the Epidemic, the advertising promotion budgets of clients from PCs of the Group have been reduced continuously, leading to the reduction in the number of their advertisements and the amount of their advertising expenses, thus resulting in the decrease in the revenue from online advertising services from PCs of the Group.

(b) Online game platforms

Our revenue from online game platforms increased by approximately 52.5% from approximately RMB113.7 million for the year ended 31 December 2021 to approximately RMB173.4 million for the year ended 31 December 2022. Such increase was mainly because two online games launched by the Group in the second half of 2021 and in the second half of 2022, respectively have achieved excellent market responses, and both the number of paying users and ARPU increased.

(c) Operation of exclusive licensed online game business

Our revenue from operation of exclusive licensed online game business decreased by approximately 80.6% from approximately RMB19.7 million for the year ended 31 December 2021 to approximately RMB3.8 million for the year ended 31 December 2022. Such decrease was mainly because of the slow down in the overall development progress of online games in cooperation with online game development companies due to the impact of the Epidemic.

(ii) Electronic devices sales

Our revenue from the electronic devices sales decreased by approximately 72.6% from approximately RMB0.6 million for the year ended 31 December 2021 to approximately RMB0.2 million for the year ended 31 December 2022, which was mainly because the Group has carried out business realignment and suspended the operation of the electronic devices sales business in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Costs of sales and services

The following table sets forth a breakdown of our costs of sales and services by amount and as a percentage of costs of sales and services for the years ended 31 December 2021 and 2022:

	For the year ended 31 December			
	2022		2021	
	RMB'000	**Proportion (%)**	RMB'000	Proportion (%)
Online traffic monetization				
Advertising and promoting	**171,634**	**94.8**	154,367	90.1
Server leasing	**9,213**	**5.1**	16,407	9.6
Electronic devices sales				
Smart accessories sales	**118**	**0.1**	152	0.1
Certified pre-owned and factory other electronic devices sales	**–**	**–**	332	0.2
Total	**180,965**	**100.0**	171,258	100.0

(i) Online traffic monetization

Cost of online traffic monetization business increased by approximately 5.9% from approximately RMB170.8 million for the year ended 31 December 2021 to approximately RMB180.8 million for the year ended 31 December 2022, which was mainly due to a significant increase in promotion of the domestic mobile utility software and online games in order to continue to develop the online game platforms business.

(ii) Electronic devices sales

Cost of electronic devices sales decreased by approximately 75.6% from approximately RMB0.5 million for the year ended 31 December 2021 to approximately RMB0.1 million for the year ended 31 December 2022, which was mainly due to the significant decrease in the sales volume of electronic devices.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The following table sets forth our gross profit and gross profit margin by business lines for the years ended 31 December 2021 and 2022:

	For the year ended 31 December			
	2022		2021	
	RMB'000	***%***	*RMB'000*	*%*
Online traffic monetization	**178,083**	**49.6**	166,523	49.4
Electronic devices sales	**54**	**31.4**	144	22.9
Total gross profit and gross profit margin	**178,137**	**49.6**	166,667	49.3

Our gross profit increased by approximately 6.9% from approximately RMB166.7 million for the year ended 31 December 2021 to approximately RMB178.1 million for the year ended 31 December 2022, and the gross profit margin was approximately 49.3% and 49.6% for the years ended 31 December 2021 and 31 December 2022, respectively. The increase in gross profit margin was mainly due to the high gross profit of the online game platforms business.

Other income

Other income decreased by approximately 1.2% from approximately RMB10.9 million for the year ended 31 December 2021 to approximately RMB10.8 million for the year ended 31 December 2022, which was due to the decrease in government grants.

Other gains and losses

Other gains and losses increased by more than 100% from losses of approximately RMB2.9 million for the year ended 31 December 2021 to losses of approximately RMB6.1 million for the year ended 31 December 2022, which was mainly due to the provision made for the impairment of the investment amount of the three associates we invested in previous years and the provision made for the prepayments paid but not expected to be recovered.

Administrative expenses

Administrative expenses increased by approximately 13.3% from approximately RMB36.5 million for the year ended 31 December 2021 to approximately RMB41.4 million for the year ended 31 December 2022, which was mainly due to the increase in consulting services fees and the increase in conference fees.

Research and development expenses

Research and development expenses increased by approximately 11.3% from approximately RMB39.8 million for the year ended 31 December 2021 to approximately RMB44.3 million for the year ended 31 December 2022, which was mainly due to the increase in the number and average salary of our research and development staff.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 2.5% from approximately RMB25.1 million for the year ended 31 December 2021 to approximately RMB24.5 million for the year ended 31 December 2022, which was mainly due to the overall decrease in marketing and promotion expenses.

Taxation

Taxation increased by approximately 8.2% from approximately RMB6.0 million for the year ended 31 December 2021 to approximately RMB6.5 million for the year ended 31 December 2022. Such increase was mainly due to the increase in profit before taxation in 2022 as compared with 2021.

Profit and total comprehensive income for the year

As a result of the foregoing, the profit and total comprehensive income for the year of the Group increased by approximately 13.7% from approximately RMB57.7 million for the year ended 31 December 2021 to approximately RMB65.6 million for the year ended 31 December 2022.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Since Listing, we have financed our cash requirements through a combination of cash generated from operating activities and the proceeds from the Listing. In the future, we expect to continue to rely on cash flows generated from operations, and other debt and equity financing, in addition to the proceeds from the Listing, to fund our working capital needs and finance part of our business expansion.

As at 31 December 2021 and 31 December 2022, our bank balances and cash amounted to approximately RMB385.0 million and approximately RMB532.9 million, respectively.

The Group mainly operates in China and its functional currency is RMB. However, we are exposed to foreign currency risks due to certain bank balances, trade receivables and certain payables denominated in foreign currencies held by us. We believe the existing bank balances, trade receivables and certain payables denominated in foreign currencies expose us to limited and controllable foreign currency risks. We will continue to monitor the movements in exchange rates and will take measures to mitigate the impacts brought by movements in exchange rates if necessary.

As at 31 December 2022, we did not have any bank borrowings. Accordingly, no gearing ratio is presented.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the years ended 31 December 2021 and 2022:

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Purchase of property and equipment	**2,991**	3,361
Purchase of intangible assets	**–**	1,932
Total	**2,991**	5,293

Our capital expenditures primarily include expenditures for purchase of property and equipment, such as laboratories, servers and computers, and expenditures for purchase of intangible assets such as trademarks and franchises.

SIGNIFICANT INVESTMENTS HELD

In order to effectively utilize the Group's idle funds and generate better returns, the Group has from time to time subscribed principal-guaranteed structured deposit products issued by reputable commercial bank with its idle funds.

These structured deposit products subscribed by the Group (the "**Structured Deposit Products**") are fully principal-guaranteed with minimal risks involved and their returns are relatively high as compared with the deposit interest rates generally offered by commercial banks in the PRC. The Structured Deposit Products were funded by the Group's idle funds with a relatively short term which would not affect the operational liquidity of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group held 9 Structured Deposit Products offered by China Merchants Bank, details of which are as follows:

i. The Structured Deposit Product Agreement XV

Date: 18 February 2022

Product: Gold-linked Series Bullish Three-tier 88-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看漲三層區間88天結構性存款)

Parties: Anyixun Technology and China Merchants Bank

Amount of the deposit: RMB30 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.59% to 3.20%

Term of the deposit: 88 days

Value date: 21 February 2022

Expiry date: 20 May 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Anyixun Technology has no right of early termination or redemption of the product

MANAGEMENT DISCUSSION AND ANALYSIS

ii. The Structured Deposit Product Agreement XVI

Date: 25 February 2022

Product: Gold-linked Series Progressive Bullish Two-tier 88-day Structured Deposit of China Merchants Bank* (招商銀行點金系列進取型看漲兩層區間88天結構性存款)

Parties: Chengdu Qilu and China Merchants Bank

Amount of the deposit: RMB30 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.65% to 3.06%

Term of the deposit: 88 days

Value date: 28 February 2022

Expiry date: 27 May 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Chengdu Qilu has no right of early termination or redemption of the product

MANAGEMENT DISCUSSION AND ANALYSIS

iii. The Structured Deposit Product Agreement XVII

Date: 3 March 2022

Product: Gold-linked Series Bullish Three-tier 84-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看漲三層區間84天結構性存款)

Parties: Liu Liuyou Technology and China Merchants Bank

Amount of the deposit: RMB20 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.65% to 3.20%

Term of the deposit: 84 days

Value date: 7 March 2022

Expiry date: 30 May 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Liu Liuyou Technology has no right of early termination or redemption of the product

iv. The Structured Deposit Product Agreement XVIII

Date: 31 May 2022

Product: Gold-linked Series Bearish Two-tier 92-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看跌兩層區間92天結構性存款)

Parties: Anyixun Technology and China Merchants Bank

Amount of the deposit: RMB20 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.85% to 3.10%

Term of the deposit: 92 days

Value date: 1 June 2022

Expiry date: 1 September 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Anyixun Technology has no right of early termination or redemption of the product

MANAGEMENT DISCUSSION AND ANALYSIS

v. **The Structured Deposit Product Agreement XX**

Date: 13 June 2022

Product: Gold-linked Series Bearish Two-tier 92-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看跌兩層區間92天結構性存款)

Parties: Chengdu Qilu and China Merchants Bank

Amount of the deposit: RMB30 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.85% to 3.05%

Term of the deposit: 92 days

Value date: 15 June 2022

Expiry date: 15 September 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Chengdu Qilu has no right of early termination or redemption of the product

vi. The Structured Deposit Product Agreement XXI

Date: 28 June 2022

Product: Gold-linked Series Bearish Three-tier 92-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看跌三層區間92天結構性存款)

Parties: Liu Liuyou Technology and China Merchants Bank

Amount of the deposit: RMB20 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.85% to 3.20%

Term of the deposit: 92 days

Value date: 29 June 2022

Expiry date: 29 September 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Liu Liuyou Technology has no right of early termination or redemption of the product

MANAGEMENT DISCUSSION AND ANALYSIS

vii. The Structured Deposit Product Agreement XXII

Date: 29 September 2022

Product: Gold-linked Series Bearish Three-tier 91-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看跌三層區間91天結構性存款)

Parties: Liu Liuyou Technology and China Merchants Bank

Amount of the deposit: RMB20 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.85% to 3.00%

Term of the deposit: 91 days

Value date: 30 September 2022

Expiry date: 30 December 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Liu Liuyou Technology has no right of early termination or redemption of the product

MANAGEMENT DISCUSSION AND ANALYSIS

viii. The Structured Deposit Product Agreement XXIII

Date: 29 September 2022

Product: Gold-linked Series Bearish Three-tier 91-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看跌三層區間91天結構性存款)

Parties: Anyixun Technology and China Merchants Bank

Amount of the deposit: RMB30 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.85% to 3.00%

Term of the deposit: 91 days

Value date: 30 September 2022

Expiry date: 30 December 2022

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Anyixun Technology has no right of early termination or redemption of the product

MANAGEMENT DISCUSSION AND ANALYSIS

ix. The Structured Deposit Product Agreement XXIV

Date: 29 November 2022

Product: Gold-linked Series Bullish Three-tier 90-day Structured Deposit of China Merchants Bank* (招商銀行點金系列看漲三層區間90天結構性存款)

Parties: Chengdu Qilu and China Merchants Bank

Amount of the deposit: RMB20 million

Type: Principal-guaranteed with floating interest rate

Linked subject and deposit interest: The interest on such deposit is linked to the price of gold. Deposit interest is determined based on the performance of the linked gold price

Expected maturity interest rate per annum: 1.85% to 3.00%

Term of the deposit: 90 days

Value date: 30 November 2022

Expiry date: 28 February 2023

Risk rating of the product (the risk rating made by the bank): R1 (cautious)

Termination and redemption: Chengdu Qilu has no right of early termination or redemption of the product

As at 31 December 2022, the Structured Deposit Product Agreement XV, Structured Deposit Product Agreement XVI, Structured Deposit Product Agreement XVII, Structured Deposit Product Agreement XVIII, Structured Deposit Product Agreement XX, Structured Deposit Product Agreement XXI, Structured Deposit Product Agreement XXII and Structured Deposit Product Agreement XXIII have expired and the total amount of the actual interest received from these matured Structured Deposit Products was RMB216,986.30, RMB221,326.03, RMB138,082.19, RMB156,273.97, RMB230,630.14, RMB151,232.88, RMB139,616.44 and RMB209,424.66, respectively.

As at 31 December 2022, the outstanding Structured Deposit Products amounted to RMB20 million.

Save as disclosed in this annual report, there were no other significant investments held during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any significant acquisition and disposal during the Reporting Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2022, the Group had no future plan for material investments or capital assets.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2022, we had 269 full-time employees, all of whom are located in the PRC. Such full-time employees included senior management members whose biographies are set out on page 27 in this annual report, 114 employees who are responsible for sales and marketing, 124 employees who are responsible for research and development and 29 administrative employees.

We offer employees competitive remuneration, performance-based bonuses and incentives. Our employees' performance is reviewed every year on the basis of, among other criteria, their ability to achieve stipulated performance targets. We place great emphasis on the training and development of our employees. We have developed a series of personalized training conferences based on our industry experience over the years. We invest in continuing education and training programs for our management personnel and other employees with a view to constantly upgrading their skills and knowledge. We also arrange internal and external professional training programs to develop our employees' skills and knowledge. These programs include further education, basic economic and financial knowledge and skills training, as well as professional development courses for our management personnel. New employees are required to attend induction meetings to ensure they have understanding of the Group and the necessary skills to perform their duties. In accordance with the applicable PRC laws and regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing provident funds for our employees.

PLEDGE OF ASSETS

As at 31 December 2022, the Group did not have any pledge of assets.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2022, the Group did not have any significant contingent liabilities, guarantees or any litigations.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

On 26 September 2022, the Group entered into an investment agreement (the "**Agreement**") with a company principally engaged in game development and operation business in the PRC (the "**Target Company**") and its shareholders to acquire 15% equity interests of the Target Company through capital injection into the Target Company on a fully diluted basis for a consideration of RMB9,500,000, and the transaction was completed in January 2023 upon the satisfaction of the conditions stipulated in the Agreement.

According to the Agreement, the Group has the right to appoint one of the three directors of the Target Company, and according to the articles of association of the Target Company, the board of directors of the Target Company is responsible to approve the decision to direct the operation and financing activities of the Target Company. The Directors consider that the Group has significant influence over the Target Company and it is therefore classified as an associate of the Group upon the completion of the transaction.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tian Ye, aged 42, is the founder of the Group and was appointed as a Director on 7 February 2018. Mr. Tian is also our chief executive officer, general manager and chairman of the Board, responsible for overall strategic planning and overseeing the general management and daily operation of the Group. Mr. Tian holds directorships in 360 Ludashi Consulting Limited, 360 Ludashi Technology Limited, Anyixun Technology and Chengdu Qilu. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Tian has around 19 years of experience in software development industry. From July 2004 to July 2005, Mr. Tian worked in Kingsoft Corporation Limited (stock code: 03888), whose shares are listed on the Main Board of the Stock Exchange and which is a leading software developer, distributor and service provider in China, as project manager. From August 2005 to December 2009, Mr. Tian was an entrepreneur in the information technology industry. From December 2009 to October 2014, Mr. Tian joined 360 Group as a senior director (高級總監), responsible for software development and management. He then founded the Group in November 2014.

Mr. Tian obtained a bachelor's degree in computer science from Shenyang University of Technology (瀋陽工業大學) in July 2003 and a master's degree in business administration from Cheung Kong Graduate School of Business (長江商學院) in 2018.

Mr. He Shiwei, aged 52, was appointed as a Director on 26 August 2018. Mr. He is our chief technology officer, principally responsible for overseeing research and technology development of the Group. Mr. He holds directorships in Anyixun Technology, Chengdu Qilu, Liu Liuyou Technology, Tianjin Zhongzhixing Technology Company Limited* (天津眾志興科技有限公司), Tianjin Xiaolu Second-Hand Technology Company Limited* (天津小魯二手科技有限公司), Chengdu Mijiayou Technology Co., Ltd.* (成都米加遊科技有限公司), Zhenjiang Jintao E-commerce Company Limited* (鎮江金淘電子商務有限公司), Chengdu Xiaolu Chexun Technology Company Limited* (成都小魯車訊科技有限公司), Chengdu Luyi Technology Company Limited* (成都魯易科技有限公司), Tianjin Mimo Atomization Intelligent Technology Company Limited* (天津米摩霧化智能科技有限公司), Hainan Yunyou Technology Company Limited* (海南雲遊科技有限公司), Shanghai Qilu Network Technology Company Limited* (上海奇魯網絡科技有限公司), Chengdu Ludashi Zhidian Technology Company Limited* (成都魯大師智店科技有限公司), Chengdu Kuanxi Information Technology Company Limited* (成都寬喜信息技術有限公司) and Sichuan Quchangwan Technology Company Limited* (四川趣暢玩科技有限公司).

Mr. He has more than 23 years of experience in the software development industry. From March 2000 to April 2002, he worked in Beijing Luosen Technology Company Limited* (北京絡森科技有限公司) as chief technology officer. From May 2002 to November 2009, Mr. He served in Beijing Wanxun Botong Technology Development Company Limited* (北京萬訊博通科技發展有限公司) as a manager of the development department. From December 2009 to November 2014, he worked at 360 Group as a technology manager (技術經理). In November 2014, he joined Chengdu Qilu and has been serving as chief technology officer since then.

Mr. He obtained a bachelor's degree in computer science from the Tianjin University (天津大學) in July 1992.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Sun Chunfeng, aged 36, was appointed as a non-executive Director on 26 August 2018, and is principally responsible for overseeing the management and strategic planning of the Group. Mr. Sun also holds directorship in Chengdu Qilu.

Mr. Sun has around 11 years of experience in the software development industry. In January 2013, he founded Shanghai Gaoxin, which is principally engaged in software design, operation and development, and has been serving as its general manager since April 2015. In March 2014, he further co-founded Shanghai Songheng, which is principally engaged in network technology development, has been serving as its general manager since then and has been serving as its chairman of the board of directors and authorized representative since 12 December 2018. Mr. Sun has also been serving as a director of Shanghai Leshu Information Technology Co., Ltd.* (上海樂蜀網絡科技股份有限公司), whose shares are listed on the National Equities Exchange and Quotations (stock code: 836002) since 10 August 2015.

Mr. Sun obtained a diploma of computer information management (計算機信息管理) from Zhejiang Institute of Communications (浙江交通職業技術學院) in June 2009.

Mr. Liu Wei, aged 45, was appointed as a non-executive Director on 29 June 2020. Mr. Liu is responsible for overseeing the management and strategic planning of the Group.

Mr. Liu has more than 23 years of experience in the investment and management field. Since August 2000, Mr. Liu has served multiple management positions at various investment firms, such as the investment director of Fosun International Limited (復星國際有限公司) (the shares of which are listed on the Stock Exchange (stock code: 656)), the investment director of Shanda Capital* (盛大資本), and the general manager of Ping'an Ventures Investment Fund* (平安創新投資基金). In July 2014, Mr. Liu joined 360 Group and had been responsible for the business segments of 360 Group, such as "360 Capital", "360 Innovative Research" and "360 Financing", etc. He is currently serving as the senior vice president of 360 Group.

From September 2018 to November 2022, Mr. Liu served as a director of Qifu Technology, Inc. (formerly known as 360 DigiTech, Inc.) (the shares of which are listed on NASDAQ (stock code: QFIN) and the Stock Exchange (stock code: 3660)).

Mr. Liu graduated from Shanghai University of International Business and Economics (上海對外經貿大學) majoring in international trade with a bachelor's degree in economics in July 2001.

Mr. Zhao Dan, aged 43, was appointed as a non-executive Director on 29 June 2020. Mr. Zhao is responsible for overseeing the management and strategic planning of the Group.

Mr. Zhao has over 18 years of experience in the accounting and audit field. From September 2006 to November 2007, Mr. Zhao worked at the Shanghai branch of KPMG Huazhen LLP* (畢馬威華振會計師事務所(特殊普通合夥)). From November 2007 to January 2013, Mr. Zhao worked in the internal audit department of Alibaba Group Holding Limited (阿里巴巴集團控股有限公司) (the shares of which are listed on the Stock Exchange (stock code: 9988) and the New York Stock Exchange (stock code: BABA)). In January 2013, Mr. Zhao joined 360 Group, and is currently serving as the vice president of 360 Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Since May 2020, Mr. Zhao has been a director of Qifu Technology, Inc. (formerly known as 360 DigiTech, Inc.) (the shares of which are listed on NASDAQ (stock code: QFIN) and the Stock Exchange (stock code: 3660)). Mr. Zhao has been serving as a director of Huafang Group Inc., whose shares are listed on the Stock Exchange (stock code: 3611) since July 2021.

Mr. Zhao obtained a bachelor's degree in international business management in July 2002 from University of Shanghai for Science and Technology (上海理工大學), and a master's degree in international business economics in December 2004 from University of Konstanz, Germany. He obtained a professional qualification of Certified Internal Auditor in November 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Yang, aged 39, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Li is responsible for supervising and providing independent judgement to the Board. He is also a member of each of the Nomination Committee and Audit Committee.

Mr. Li has been an associate professor of marketing of Cheung Kong Graduate School of Business (長江商學院) since July 2012. Mr. Li has been serving as an independent director of Dr Corporation Limited, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 301177) since January 2020.

Mr. Li obtained a bachelor's degree in electronic information science and technology in July 2005 from Peking University, a master of science degree in biomedical engineering in February 2007, a master of philosophy degree in management and a doctor of philosophy degree in management both in May 2012 from Columbia University.

Mr. Wang Xinyu, aged 52, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Wang is responsible for supervising and providing independent judgement to the Board. He is also the chairman of the Remuneration Committee and a member of each of the Nomination Committee and Audit Committee.

In September 1998, Mr. Wang founded Beijing Jingtianwei Technology Development Company Limited* (北京京天威科技發展有限公司), which is principally engaged in design and sale of locomotive software, and served as its general manager from September 1998 to August 2010. In March 2011, Mr. Wang founded Suzhou Huaxing Zhiyuan Electronics Technology Company Limited* (蘇州華興致遠電子科技有限公司), which is principally engaged in electronic technology development and was acquired by China High Speed Railway Technology Co., Ltd (神州高鐵技術股份有限公司) (stock code: 000008) whose shares are listed on the Shenzhen Stock Exchange in 2015. In June 2016, Mr. Wang founded Suzhou Eavision Robotics Technology Company Limited* (蘇州極目機器人科技有限公司) which is engaged in robotics technology development.

Mr. Wang obtained a bachelor's degree in industrial electronic automation in July 1992 from Lanzhou Railway College* (蘭州鐵道學院) (currently known as Lanzhou Jiaotong University (蘭州交通大學)), and a doctor's degree in systems engineering in July 2009 from Beijing Jiaotong University (北京交通大學).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Ziyu, aged 39, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Zhang is responsible for supervising and providing independent judgement to the Board. He is also the chairman of the Audit Committee and a member of the Remuneration Committee.

From September 2006 to January 2010, Mr. Zhang worked at Deloitte Touche Tohmatsu Hong Kong office, with his last position as a senior associate of the audit department. In October 2010, he joined the finance department in China Resources (Holdings) Co., Ltd (華潤(集團)有限公司) and was a senior manager when he left the firm. Mr. Zhang subsequently served as an Assistant Vice President of the Listing and Regulatory Affairs Division of Hong Kong Exchanges and Clearing Limited, responsible for compliance and regulatory affairs, from September 2014 to October 2015. From May 2016 to September 2020, Mr. Zhang worked in China Tian Yuan Finance Group (Holdings) Limited (中國天元金融集團(控股)有限公司) and served as the president when he resigned from the company. From September 2020 to August 2022, Mr. Zhang served as the co-chief executive officer of Tonsin Financial Holdings Limited (東新金控有限公司). Since September 2022, Mr. Zhang serves as the chief executive officer of Ark Global Investment Limited (方舟環球投資有限公司).

Mr. Zhang obtained a bachelor's degree in business administration in November 2006 from Lingnan University, a master's degree in finance in November 2013 and a postgraduate diploma in commercial law in September 2016 from The University of Hong Kong. He has been a non-practicing member of Hong Kong Institute of Certified Public Accountants since January 2010, a fellow member of the Association of Chartered Certified Accountant since June 2016, and a member of CFA Institute since September 2010.

SENIOR MANAGEMENT

Mr. Tian Ye is the chief executive officer and general manager of the Company. For biographical details of Mr. Tian, please refer to the paragraph headed "Executive Directors" in this section above.

Mr. He Shiwei is the chief technology officer of the Company. For biographical details of Mr. He, please refer to the paragraph headed "Executive Directors" in this section above.

COMPANY SECRETARY

Mr. Cheng Ching Kit, was appointed as the company secretary of the Company on 30 August 2018. Mr. Cheng is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, a professional service provider specialising in corporate services and has over 10 years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom since 2018. He holds a bachelor of commerce degree in finance from the University of Queensland and a master's degree in laws (Chinese Law) from The University of Hong Kong.

DIRECTORS' REPORT

The Board presents the Directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Group develops a series of PC and mobile devices utility software which are offered to users free-of-charge in exchange for online traffic that we monetize by online advertising and online game business, among which Ludashi Software (魯大師軟件) is a well-known brand and software in China and elsewhere in the world with a specialty in PC/smartphone hardware and system benchmarking and monitoring. The Group has accumulated a large user base through providing free download and installation of Ludashi Software so that we monetize by online advertising, online game platforms and operation of exclusive licensed online game business.

RESULTS OF OPERATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated financial statements on pages 105 to 107 of this annual report.

FINANCIAL SUMMARY

The financial summary of the Group from 2018 to 2022 is set out in the section headed "Financial Summary" on page 183 of this annual report.

BUSINESS REVIEW AND OUTLOOK

The business review and outlook of the Group for the year ended 31 December 2022 are set out in the section headed "Management Discussion and Analysis" on pages 6 to 9 of this annual report.

KEY RISKS AND UNCERTAINTIES

The Group is subject to the following key risks and uncertainties in its operations:

- if we fail to continue to innovate and provide attractive products and services to attract and retain users, we may lose customers for our revenue generating services;
- if we fail to protect our proprietary data and user data, our reputation and business could be negatively affected;
- adverse changes in online advertising service may lead to a decrease in our revenue;
- due to the fierce competition in the online advertising business, our customers may change to other platforms for advertising, and our advertisement volume may be reduced accordingly;
- the intellectual properties of the exclusive licensed online games operated by the Group may be infringed by third parties, leading to a reduction in our gains;
- failure to obtain, renew or retain licenses, permits or approvals, or failure to comply with applicable laws and regulations may affect our ability to conduct our business;

DIRECTORS' REPORT

- our business depends on a strong brand and reputation, and we may not be able to maintain and enhance our brand or reputation or may suffer negative publicity;

- the Group's new online games may not be commercially successful and the Group may not be able to attract new game players; and

- the laws and regulations regulating online games in the PRC continue to evolve and change, and the Group may not be able to obtain or maintain all applicable permits and approvals.

EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period are set out in the paragraph headed "Events after the Reporting Period" of the section headed "Management Discussion and Analysis" on page 26 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Due to the nature of our business, we did not have any environmental issues that could have any material impact on our financial condition or business operations under the relevant environmental laws and regulations applicable to the Group's business and operations.

The Group values environmental protection and continues to pay attention to the impact of its business operations on the environment. For details of the Group's environmental policies and performance, please refer to the "2022 Environmental, Social and Governance Report" set out on pages 74 to 99 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group' s operation of online game business is considered to be a value-added telecommunications business in the PRC, a sector where foreign investment is subject to significant restrictions under the present PRC laws and regulations. In order to comply with the PRC laws and regulations and to maintain effective control over the operations of the PRC Operating Entities, WFOE entered into the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders (being the registered shareholders of Chengdu Qilu) (where applicable). For details of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this annual report.

In addition, under the current applicable PRC laws and regulations, a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in the PRC must also demonstrate a good track record and operating experience in providing value-added telecommunications services overseas (the "**Qualification Requirements**").

Insofar as the Directors are aware, as at the date of this annual report, the Company has taken all reasonable steps to ensure that such Qualification Requirements are met if and when the PRC laws and competent authorities substantively allow foreign investors to invest in value-added telecommunications services or internet cultural business in the PRC. The Company will continue to communicate with the relevant governmental authorities and provide updates where necessary. We will unwind and terminate the Contractual Arrangements wholly or partially once our business is no longer prohibited or restricted from foreign investment.

DIRECTORS' REPORT

The Group has formulated and adopted various internal control measures, approval procedures and training programmes within all business units at all levels of the Group to ensure its affairs are conducted in a lawful manner to uphold high standard of integrity in all respects of business. During the Reporting Period and up to the date of this annual report, the Group had complied with applicable laws and regulations in all material respects and there was no violation of or non- compliance with any relevant laws and regulations that had a significant impact on the business and operation of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise its Directors and senior management members, employees, customers and suppliers.

Employees

As at 31 December 2022, we had 269 full-time employees, all of whom are located in the PRC. Specifically, such full-time employees included senior management members whose biographies are set out on page 27 in this annual report, 114 employees who are responsible for sales and marketing, 124 employees who are responsible for research and development and 29 administrative employees. During the Reporting Period, we have not experienced any strikes or labor disputes that have a significant impact on the Company's business activities. Our future success depends on the competence and efforts of our experienced management team and high-tech personnel. Due to the fierce competition for talents in the Internet industry, the Group will continue to enhance our ability to attract new employees and retain and motivate existing management teams and high-tech personnel in the future.

We offer employees competitive remuneration, performance-based bonuses and incentives. Our employees' performance is reviewed every year on the basis of, among other criteria, their ability to achieve stipulated performance targets. We place great emphasis on the training and development of our employees. We invest in continuing education and training programs for our management personnel and other employees with a view to constantly upgrading their skills and knowledge. These programs include further education, basic economic and financial knowledge and skills training, as well as professional development courses for our management personnel. New employees are required to attend induction meetings to ensure that they have understanding of the Group and the necessary skills to perform their duties. In accordance with the applicable PRC laws and regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing provident funds for our employees.

DIRECTORS' REPORT

Customers

The Group's customers of online advertising services acquire exposure to a vast number of users of Ludashi Software through its different types of advertising services, which contributes online user traffic and viewers to their products. Customers of our online game business are mainly players on the Group's online game platforms. Customers of our electronic devices sales are mainly enterprises who purchase for resale and individuals who purchase and use electronic devices.

Our ability to attract, retain, and engage our user base and to increase our revenue depends heavily on our ability to continue to provide high-quality free-of-charge hardware and system benchmarking and monitoring services. We shall continue to improve our existing products and user experience in order to stay competitive. In the future, the Group will continue to innovate and provide attractive products and services, so as to maintain competitive, keep its user base and retain its customers.

For the year ended 31 December 2022, revenue from the top five customers of the Group accounted for approximately 64.3% of the Group's total revenue, and revenue from the largest customer of the Group accounted for approximately 29.4% of the Group's total revenue.

To the best knowledge of the Directors, for the year ended 31 December 2022 and up to the date of this annual report, none of the Directors or any of their close associates or any Shareholders, which hold more than 5% of the Company's issued shares, had any interests in our five largest customers.

Suppliers

The Group's suppliers include online traffic suppliers, advertising and promotion service suppliers, server leasing service suppliers and electronic devices suppliers. To ensure the continuity and timeliness of the supply chain, we have always maintained good business relationships with our suppliers.

For the year ended 31 December 2022, purchases from the top five suppliers of the Group accounted for approximately 67.1% of the Group's total purchase amount, and purchases from the largest supplier accounted for approximately 28.8% of the Group's total purchase amount.

To the knowledge of the Directors, during the year ended 31 December 2022 and up to the date of this annual report, none of the Directors, their respective close associates or any shareholders, which hold more than 5% of the Company's issued shares, had any interests in our top five suppliers.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended 31 December 2022 are set out in note 15 to the audited consolidated financial statements.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

DIRECTORS' REPORT

CLOSURES OF THE REGISTER OF MEMBERS

The Annual General Meeting will be held on 31 May 2023. The register of members of the Company will be closed from 25 May 2023 to 31 May 2023, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the Annual General Meeting, during which no share transfers will be registered. To be eligible to attend the Annual General Meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on 24 May 2023.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 31 to the audited consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2022 are set out in note 24 to the audited consolidated financial statements.

RESERVES

The Company's reserves available for distribution as at 31 December 2022 was RMB596.1 million. Details of the movements in the reserves of the Company during the year ended 31 December 2022 are set out in section headed "CONSOLIDATED STATEMENT OF CHANGES IN EQUITY" to the audited consolidated financial statements.

ISSUE OF DEBENTURE

The Group has not issued any debentures during the Reporting Period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchanges during the year ended 31 December 2022.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands being the jurisdiction in which the Company is incorporated, under which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

DONATIONS

The Group has made a charitable donation of RMB200,000 for the year ended 31 December 2022 (2021: RMB20,000).

DIRECTORS' REPORT

USE OF NET PROCEEDS FROM THE LISTING

The Company was listed on the Main Board of the Stock Exchange on 10 October 2019 and the net proceeds raised from the Listing were approximately HK$123.1 million after deducting underwriting commissions and related expenses (the "**Net Proceeds**"). We will continue to utilize the Net Proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. During the Reporting Period, the Company has changed the use of the Net Proceeds, please refer to the announcement of the Company dated 15 December 2022. An analysis of the revised use of the Net Proceeds as at the date of the announcement in relation to change in use of proceeds and as at 31 December 2022 is set out below:

Purposes	Allocation of proceeds as set out in the Prospectus *(HK$ million)*	Net balance of the Net Proceeds as at 31 December 2021 *(HK$ million)*	Utilized Net Proceeds before change in use on 15 December 2022 *(HK$ million)*	Unutilized Net Proceeds before change in use on 15 December 2022 *(HK$ million)*	Adjusted allocation of the unutilized Net Proceeds after change in use on 15 December 2022 *(HK$ million)*	Utilization of the Net Proceeds in 2022 *(HK$ million)*	Net balance of the Net Proceeds as at 31 December 2022 *(HK$ million)*	Timeframe for utilization of the balance of the Net Proceeds
(i) to enhance the Group's research and development capability	36.9	18.4	27.8	9.1	9.1	9.3	9.1	On or before 31 December 2023
(ii) to advertise and promote Ludashi Software and related software and products on the third parties' electronic platforms, and continue to carry out the Group's existing marketing plans	24.6	14.6	16.2	8.4	8.4	6.2	8.4	On or before 31 December 2023
(iii) to enhance the Group's own certified pre-owned and factory smartphones e-commerce platform and offline sales channel	24.6	17.6	7.0	17.6	-	-	-	N/A
(iv) to make additional strategic investments and acquisitions in cash alone or in combination with equity	24.6	-	24.6	-	-	-	-	N/A
(v) for working capital and general corporate purposes	12.4	1.9	12.4	-	-	1.9	-	N/A
(vi) to advertise and promote online games operated by the Group	Nil	N/A	N/A	N/A	17.6	-	17.6	On or before 31 December 2023
Total	123.1	52.5	88.0	35.1	35.1	17.4	35.1	

During the Reporting Period, the Net Proceeds had been applied in accordance with the allocations and purposes as stated in the Prospectus and the announcement dated 15 December 2022 in relation to change in use of Net Proceeds and set out above and were expected to be used in accordance with the purposes as set forth above.

DIRECTORS' REPORT

DIRECTORS

The Directors during the Reporting Period and as of the date of this annual report are:

Executive Directors

Mr. Tian Ye *(Chairman)*
Mr. He Shiwei

Non-executive Directors

Mr. Sun Chunfeng
Mr. Liu Wei
Mr. Zhao Dan

Independent Non-executive Directors

Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu

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

In accordance with Article 84 of the Articles of Association, Mr. Zhang Ziyu, Mr. Liu Wei and Mr. Zhao Dan shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

There was no service contract entered into/letter of appointment signed by the Company and any Directors to be re-elected at the forthcoming AGM which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 27 to the consolidated financial statements and in the section headed "Connected Transactions" of Directors' Report in this annual report, neither Director nor an entity connected with the Director has a material interest, directly or indirectly, in any transaction, arrangement or contract of significance entered into by the Company, its holding company or any of its subsidiaries or fellow subsidiaries during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus, neither the directors nor their respective close associates had interests in business, which competes or likely competes, either directly or indirectly, with the business of the Group that are required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules.

DEED OF NON-COMPETITION

Mr. Tian Ye and Dashi Technology Holdings (each a "**Covenantor**", collectively, the "**Covenantors**") entered into the deed of non-competition with and in favor of the Company (for itself and as trustee for each of its subsidiaries) on 9 September 2019 (the "**Deed**"). Pursuant to the Deed, each of the Covenantors has irrevocably, unconditionally and severally undertaken with the Company that, among others, for as long as the Shares remain listed on the Stock Exchange and the Covenantors are individually or collectively with any of their respective close associates interested directly or indirectly in not less than 30% of the voting power in general meetings of the Company, each Covenantor shall not, and shall procure that their respective close associates will not, directly or indirectly, carry on, develop, invest in, engage in, participate or be interested in or acquire or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the existing business (the "**Restricted Business**") carried on by the Group in the PRC and any part of the world and/or directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business.

Particulars of the Deed are set out in the section headed "Relationship with Controlling Shareholders – Non-competition undertaking by Mr. Tian Ye and Dashi Technology Holdings" in the Prospectus.

Each of Mr. Tian and Dashi Technology Holdings has provided an annual confirmation to the Company regarding their compliance with the Deed for the year ended 31 December 2022. The independent non-executive Directors have reviewed each of the Covenantors' compliance with the Deed, evaluated its effective implementation and were satisfied with the Covenantors' compliance with the Deed for the year ended 31 December 2022.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2022.

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

In compliance with the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. Directors' remuneration is subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. No Directors, or any of their respective associates, was involved in deciding his/her own remuneration.

Details of the remuneration of the Directors and the five highest paid individuals during the year ended 31 December 2022 are set out in note 11 to the audited consolidated financial statements.

During the year ended 31 December 2022, none of the Directors had waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force. The Company has taken out and maintained appropriate insurance coverage in respect of potential legal actions against its Directors and officers.

EQUITY-LINKED AGREEMENT

Except for the Share Option Scheme as defined and disclosed under the section headed "Share Option Scheme" in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2022.

SHARE SCHEME

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 9 September 2019, under which certain selected persons may be granted options to subscribe for the Shares to motivate them to optimize their future contributions to the Group.

(a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time.

(b) Eligible persons

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or professional adviser of the Group who in the sole discretion of the Board has contributed to and/or will contribute to the Group) (the "**Eligible Persons**") options to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

DIRECTORS' REPORT

(c) Maximum number of Shares to be issued

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. At the time of adoption by the Company of the Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time of the Company must not in aggregate exceed 26,000,000 Shares, representing 10% of the total number of the Shares in issue as at the Listing Date (representing 9.67% of the total number of the Shares in issue as at the date of this annual report).

(d) Maximum entitlement of each participant

No option shall be granted to any Eligible Person if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all options (including options exercised, cancelled or outstanding) to the relevant Eligible Person in the 12-month period expiring on the date on which a new offer of the grant of an option under the Share Option Scheme is made to the relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time.

(e) Period of option

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his/her personal representatives) before its expiry by giving notice in writing to the Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme.

(f) Exercise price

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option; and (iii) the nominal value of the Share. A consideration of RMB1 is payable on acceptance of the offer of an option or options.

(g) Remaining life of the scheme

The Share Option Scheme shall be valid and effective for the period commencing on the Listing Date and ending on the tenth anniversary of the Listing Date (both dates inclusive). Subject to any early termination as may be determined by the Board, the remaining life of the Share Option Scheme is around 7 years as of the date of this annual report.

At of January 2022 and 31 December 2022, the number of option available for grant under Share Option Scheme was 26,000,000. During the year ended 31 December 2022 and up to the date of this annual report, no options had been granted, exercised, cancelled or lapsed under the Share Option Scheme, nor any options were outstanding under the Share Option Scheme.

SHARE AWARD SCHEME

The Company did not adopt any share award scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interest in the Shares

Name of Directors/Chief Executive	Capacity	Nature of Interests	Number of Shares	Approximate Percentage of the Issued Share Capital of the Company (%)
Mr. Tian Ye [1]	Interest in controlled corporations	Long position	128,664,057	47.83
Mr. He Shiwei [2]	Interest in controlled corporations	Long position	2,342,712	0.87

Notes:

1. Dashi Technology Holdings and True Thrive hold approximately 17.07% and 30.76% of the issued share capital of the Company, respectively. Pursuant to the Entrustment Arrangements under the Company Shareholder Rights Entrustment Agreement and the Chengdu Qilu Shareholder Rights Entrustment Agreement, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in the Company to Dashi Technology Holdings. Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive. Dashi Technology Holdings is directly and wholly owned by Mr. Tian Ye who is therefore deemed to be interested in all the Shares held by Dashi Technology Holdings.

2. Hongmeng Investment holds 0.87% of the issued share capital of the Company. Hongmeng Investment is directly and wholly owned by Mr. He Shiwei. Mr. He Shiwei is therefore deemed to be interested in all the Shares held by Hongmeng Investment.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2022, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2022, to the best knowledge of the Directors or chief executive of the Company, the substantial shareholders, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Nature of Interest	Number of Shares	Approximate Percentage of the Issued Share Capital of the Company (%)
Dashi Technology Holdings (Notes 1 and 3)	Beneficial owner	Long position	128,664,057	47.83
True Thrive (Notes 2 and 3)	Beneficial owner	Long position	82,745,082	30.76
360 Technology (Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
360 (Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
Qixin Zhicheng (Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
Zhou Hongyi (周鴻禕) (Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
Songchang International (Note 4)	Beneficial owner	Long position	47,282,819	17.58
Songyuan International (Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Gaoxin (Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Songheng (Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Dongfangwang (Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58

DIRECTORS' REPORT

Notes:

1. Dashi Technology Holdings is directly and wholly owned by Mr. Tian Ye. Mr. Tian Ye is therefore deemed to be interested in all the Shares held by Dashi Technology Holdings.

2. True Thrive is wholly owned by 360 Technology, which is wholly owned by 360, which is ultimately held by Mr. Zhou Hongyi and Qixin Zhicheng. Each of 360 Technology, 360, Mr. Zhou Hongyi and Qixin Zhicheng is therefore deemed to be interested in all the Shares held by True Thrive.

3. Pursuant to the Entrustment Arrangements, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in the Company to Dashi Technology Holdings. Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive.

4. Songchang International is directly and wholly owned by Songyuan International, which is in turn directly and wholly owned by Shanghai Gaoxin, which is in turn directly and wholly owned by Shanghai Songheng, which is in turn controlled by Shanghai Dongfangwang. Songyuan International, Shanghai Gaoxin, Shanghai Songheng and Shanghai Dongfangwang are therefore deemed to be interested in all the Shares held by Songchang International. Shanghai Dongfangwang is the controlling shareholder of Shanghai Songheng, and directly and through its subsidiary, Shanghai Dongfangwang Investment Company Limited* (上海東方網投資有限公司), holds in aggregate approximately 34.3566% of Shanghai Songheng. Shanghai Dongfangwang is in turn controlled by State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會) of Shanghai.

Save as disclosed above, so far as known to the Directors, as at 31 December 2022, no other persons (other than the Directors or chief executive) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" in this annual report, at no time during the year ended 31 December 2022 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries or any of its holding companies or any of subsidiaries of its holding companies a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

EMPLOYEE RETIREMENT BENEFITS

Employees of the Group have mainly participated in a contribution pension scheme subsidized by governmental entities. The Group pays the required amount of contribution, which is based on a certain percentage of employees' base salary, to the scheme on a monthly basis. Pursuant to the pension scheme, the Group does not have any other material statutory or committed obligations in respect of such scheme. During the Reporting Period, there were no forfeited contributions under the Group's contribution pension scheme, and there were no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

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

CONTINUING CONNECTED TRANSACTIONS

Details of the non-exempt continuing connected transactions of the Group entered into during the year ended 31 December 2022 are as follows:

Transactions	Total Actual Annual Transaction Amount for the Year Ended 31 December 2022 *(RMB million)*	Proposed Annual Cap for the Year Ended/Ending 31 December *(RMB million)*		
		2022	2023	2024
Continuing connected transactions with 360 Group				
360 Master Sales Agreement	36.2	135.0	135.0	135.0
360 Master Purchase Agreement	0.3	17.2	17.2	17.2
Continuing connected transactions with Shanghai Songheng				
Songheng Master Sales Agreement	0.1	17.0	17.0	17.0
Contractual Arrangements [Note]				
Dividends or other distributions made by Chengdu Qilu to the holders of its equity interests	Nil	N/A	N/A	N/A

Note:

Stock Exchange Waiver and Annual Renewal

In terms of the Contractual Arrangements, the Stock Exchange has granted a waiver that as long as the Company complies with the conditions disclosed on pages 323 to 325 of the Prospectus, it is exempted from strict compliance with the following matters: (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to WFOE under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements at three years or less, for so long as the Shares are listed on the Stock Exchange.

DIRECTORS' REPORT

I. Continuing Connected Transactions with 360 Group

1. *360 Master Sales Agreement*

The Group provided online advertising services principally through homepage directing and banner advertising to 360 Group. The Group also generated revenue from Star World, a wholly-owned subsidiary of 360 Technology, through operation of the online games of Star World on the Group's online game platforms.

On 2 November 2021, the Company and 360 Technology entered into a master sales agreement (the "**360 Master Sales Agreement 2022-2024**") to renew the master sales agreement entered into by the Company and 360 Technology dated 18 September 2019 which sets out the terms and conditions upon which the members of the Group will provide services to 360 Group. The 360 Master Sales Agreement 2022-2024 is for a term of three years commencing from 1 January 2022 and ending on 31 December 2024. Upon expiry of the term, the 360 Master Sales Agreement 2022-2024 will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

360 Technology is a controlling shareholder of the Company, and hence a connected person of the Company. As one or more the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 5% and the relevant annual caps exceed HK$10,000,000, the 360 Master Sales Agreement 2022-2024 and the transactions contemplated thereunder shall be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The above transactions have been approved by the independent Shareholders at the extraordinary general meeting of the Company held on 28 December 2021.

DIRECTORS' REPORT

2. *360 Master Purchase Agreement*

The Group leased servers from Qihu Technology for data processing and storage purpose (the "**Server Leasing Service**").

On 2 November 2021, the Company and 360 Technology entered into a master purchase agreement (the "**360 Master Purchase Agreement 2022-2024**") to renew the master purchase agreement entered into by the Company and 360 Technology dated 18 September 2019 which sets out the terms and conditions upon which the members of the Group will procure services from 360 Group. The 360 Master Purchase Agreement 2022-2024 is for a term of three years commencing from 1 January 2022 and ending on 31 December 2024. Upon expiry of the term, the 360 Master Purchase Agreement 2022-2024 will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

360 Technology is a controlling shareholder of the Company, and hence a connected person of the Company. As one or more of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 0.1% but less than 5% and the relevant annual caps exceed HK$3,000,000, the 360 Master Purchase Agreement 2022-2024 and the transactions contemplated thereunder shall be subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

II. Continuing Connected Transactions with Shanghai Songheng

Songheng Master Sales Agreement

The Group provided online advertising services principally through mini-page advertising to Shanghai Songheng in the past.

On 2 November 2021, the Company and Shanghai Songheng entered into a master sales agreement (the "**Songheng Master Sales Agreement 2022-2024**") to renew the master sales agreement entered into by the Company and Shanghai Songheng dated 18 September 2019 which sets out the terms and conditions upon which the members of the Group will provide services to Shanghai Songheng and/or its subsidiaries. The Songheng Master Sales Agreement 2022-2024 is for a term of three years commencing from 1 January 2022 and ending on 31 December 2024. Upon expiry of the term, the Songheng Master Sales Agreement 2022-2024 will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

Shanghai Songheng is a substantial shareholder of the Company and hence a connected person of the Company. As one or more of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 0.1% but less than 5% and the relevant annual caps exceed HK$3,000,000, the Songheng Master Sales Agreement 2022-2024 and the transactions contemplated thereunder shall be subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. Contractual Arrangements

No dividend nor other distribution was made by Chengdu Qilu to the holders of its equity interests for the year ended 31 December 2022. Please refer to the section headed "Contractual Arrangements" in this annual report for further details.

DIRECTORS' REPORT

IV. Auditor's Confirmation in Relation to the Continuing Connected Transactions and the Contractual Arrangements

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions in connection with 360 Master Sales Agreement 2022-2024, 360 Master Purchase Agreement 2022-2024, Songheng Master Sales Agreement 2022-2024 and the Contractual Arrangements for the year ended 31 December 2022 in accordance with Rule 14A.56 of the Listing Rules, with an emphasis of matter paragraph in relation to the fact that the Company is not required to establish and announce an annual cap in respect of the continuing connected transactions in connection with the Contractual Arrangements for the year ended 31 December 2022. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditor has concluded in its unqualified letter that with regard to the continuing connected transactions in connection with 360 Master Sales Agreement 2022-2024, 360 Master Purchase Agreement 2022-2024, Songheng Master Sales Agreement 2022-2024 and the Contractual Arrangements for the year ended 31 December 2022:

(i) nothing has come to its attention that causes the auditor to believe that the continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to its attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

(iv) with respect to the aggregate amount of the continuing connected transactions in connection with 360 Master Sales Agreement 2022-2024, 360 Master Purchase Agreement 2022-2024 and Songheng Master Sales Agreement 2022-2024, nothing has come to its attention that causes the auditor to believe that the continuing connected transactions have exceeded the annual caps as set by the Company; and

(v) with respect to the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders of Chengdu Qilu, nothing has come to its attention that causes the auditor to believe that there were any dividends or other distributions made by Chengdu Qilu to the holders of the equity interests of Chengdu Qilu.

V. Independent Non-executive Directors' Confirmation in Relation to the Continuing Connected Transactions and the Contractual Arrangements

The independent non-executive Directors of the Company have reviewed the continuing connected transactions and Contractual Arrangements outlined above, and confirmed that such continuing connected transactions and Contractual Arrangements had been entered into:

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

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONTRACTUAL ARRANGEMENTS

The Group is engaged in online monetization in the form of online advertising and online game business. The operation of the online game business is subject to foreign investment restrictions under the PRC laws and regulations. As such, the Group operates the online game business through the PRC Operating Entities, namely Chengdu Qilu and its subsidiaries, all of which were established under the laws of the PRC. The Group does not directly own any equity interest in Chengdu Qilu, which is held by the Relevant Shareholders, namely (i) Qihu Technology (41.6667%); (ii) Mr. Tian Ye (28.1155%); (iii) Shanghai Songheng (23.8095%); and (iv) Qilu Haochen (6.4083%).

In order to comply with the PRC laws and regulations and to maintain effective control over the operations of the PRC Operating Entities, WFOE entered into the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders (being the registered shareholders of Chengdu Qilu) (where applicable). Under the Contractual Arrangements, WFOE has acquired effective control over the financial and operational policies of the PRC Operating Entities and has become entitled to all the economic benefits derived from their operations.

Restrictions on Foreign Ownership

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment* (外商投資准入特別管理措施(負面清單)) and the Catalogue of Industries for Encouraging Foreign Investment* (鼓勵外商投資產業目錄), (collectively the "**Catalogues**"), which were promulgated and are amended from time to time jointly by the Ministry of Commerce and the National Development and Reform Commission of the PRC. The Catalogues divide industries into three categories in terms of foreign investment, namely "encouraged," "restricted" and "prohibited", and all industries not listed under any of these categories are deemed to be "permitted."

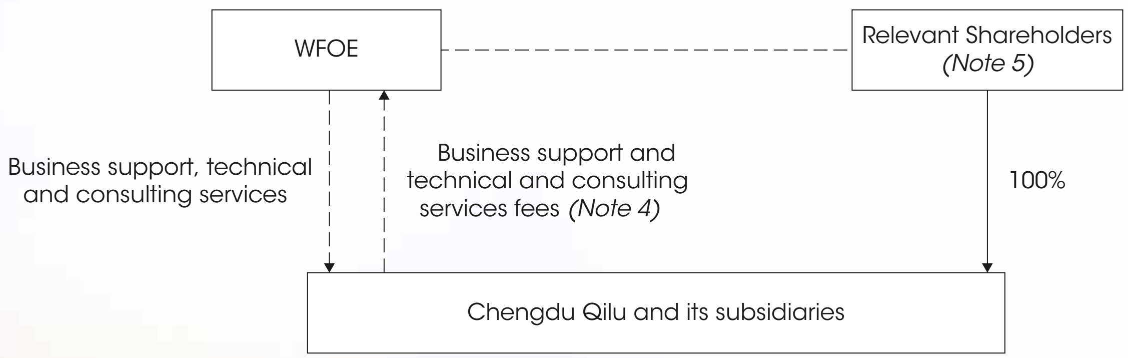
Our business of operating online games that the PRC Operating Entities engage in is under the categories of "prohibited" and "restricted". Therefore, the Contractual Arrangements are used to enable us to conduct business that is subject to foreign investment restrictions in mainland China. We will unwind and terminate the Contractual Arrangements wholly or partially once our business is no longer subject to foreign investment prohibitions or restrictions.

DIRECTORS' REPORT

As foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, it was not viable for the Company to hold Chengdu Qilu and its subsidiaries directly through equity ownership. In line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Chengdu Qilu and its subsidiaries through the Contractual Arrangements between WFOE, on the one hand, and Chengdu Qilu and the Relevant Shareholders, on the other hand. The Contractual Arrangements allow the results of operations and assets and liabilities of Chengdu Qilu and its subsidiaries to be consolidated into our results of operations and assets and liabilities under HKFRSs as if they were wholly-owned subsidiaries of the Group.

The following simplified diagram illustrates the flow of economic benefits from Chengdu Qilu and its subsidiaries to the Group stipulated under the Contractual Arrangements:

(1) Powers of attorney to exercise all shareholders' rights in Chengdu Qilu *(Note 1)*
(2) Exclusive option to acquire all or part of the equity interest in and/or assets of Chengdu Qilu *(Note 2)*
(3) First priority security interest over the entire equity interest in Chengdu Qilu *(Note 3)*



Notes:

(1) Please refer to "– Contractual Arrangements – Voting Rights Proxy Agreement and Powers of Attorney" in the Prospectus for details.
(2) Please refer to "– Contractual Arrangements – Exclusive Option Agreement" in the Prospectus for details.
(3) Please refer to "– Contractual Arrangements – Share Pledge Agreement" in the Prospectus for details.
(4) Please refer to "– Contractual Arrangements – Exclusive Business Cooperation Agreement" in the Prospectus for details.
(5) The Relevant Shareholders are Qihu Technology, Mr. Tian Ye, Shanghai Songheng and Qilu Haochen, holding 41.6667%, 28.1155%, 23.8095% and 6.4083% in Chengdu Qilu, respectively. " → "denotes direct legal and beneficial ownership in the equity interest and " --▸ " denotes contractual relationship.

The Contractual Arrangements comprise the following agreements: the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement, the Share Pledge Agreement and the Voting Rights Proxy Agreement and Powers of Attorney as defined and with details set out below.

DIRECTORS' REPORT

Business Overview of the Operating Entities

Both of Chengdu Qilu and Liu Liuyou Technology are principally engaged in the online game operation.

The PRC Operating Entities hold certain licenses and permits required for the operation of abovementioned business, referred to as the "Internet Content Provider License". WFOE, namely Anyixun Technology, entered into the Contractual Arrangements with the PRC Operating Entities and the Relevant Shareholders, where applicable, in order to conduct the business of online game operation in the PRC and to assert management control over the operations of, and enjoy all economic benefits from, each of the PRC Operating Entities. Pursuant to the Contractual Arrangements, all substantial and material business decisions of the PRC Operating Entities will be instructed and supervised by the Group, through Chengdu Qilu, and all risks arising from the business of the PRC Operating Entities are also effectively borne by Chengdu Qilu.

SUMMARY OF THE MAJOR TERMS OF THE CONTRACTUAL ARRANGEMENTS

Exclusive Option Agreement

Chengdu Qilu and the Relevant Shareholders entered into an exclusive option agreement with WFOE on 31 August 2018 (the "**Exclusive Option Agreement**"), pursuant to which WFOE (or a party designated by it, the "**designee**") was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders and/or Chengdu Qilu all or any part of their equity interests in Chengdu Qilu for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders shall return any amount of purchase price they have received to WFOE.

At WFOE's request, the Relevant Shareholders will promptly and unconditionally transfer their respective equity interests in Chengdu Qilu to WFOE (or its designee) after WFOE exercises its purchase right. The Exclusive Option Agreement is for an initial term of ten years and is automatically renewable upon expiry until the purchased equity interests have been transferred to WFOE and/or its representatives or a new renewed term confirmed by WFOE in writing is expired.

In order to prevent the flow of the assets and value of Chengdu Qilu and its subsidiaries to the Relevant Shareholders, during the term of the Exclusive Option Agreement, Chengdu Qilu is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (for a value of more than RMB1 million) without the prior written consent of WFOE.

In addition, Chengdu Qilu is not allowed to, and shall procure its subsidiaries not to, make any distributions to its/their shareholder(s) without the prior written consent of WFOE. In the event that the Relevant Shareholders receive any distribution from Chengdu Qilu and subject to the PRC laws, the Relevant Shareholders must immediately pay or transfer such distribution to WFOE (or its designee). If WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of Chengdu Qilu acquired would be transferred to WFOE and the benefits of equity ownership and/or assets, as applicable, would flow to the Company and our Shareholders.

DIRECTORS' REPORT

As provided in the Exclusive Option Agreement, without the prior written consent of WFOE, Chengdu Qilu shall not, and shall procure its subsidiaries not to, among other things:

(i) supplement, amend or revise its articles of associations, separate, dissolve or alter its form;

(ii) sell, transfer, pledge or dispose of in any manner any of its assets for a value of more than RMB1 million;

(iii) execute any material contract for a value of more than RMB1 million, except any contracts in the ordinary course of business;

(iv) provide any loan, financial support, pledge or guarantee in any form to any third party, or allow any third party to create any pledge or other security interest on its assets or equity;

(v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; and

(vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way.

The Exclusive Option Agreement provides that the Relevant Shareholders and Chengdu Qilu shall procure the subsidiaries of Chengdu Qilu to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and the Company in the event of any loss suffered from Chengdu Qilu and/or its subsidiaries can be limited to a certain extent. In addition, in relation to the above restrictive provisions specified in the Exclusive Option Agreement, we will aggregate asset disposals or value of contracts if such asset disposals or value of contracts (i) are entered into by the Group with the same party or parties; or (ii) involve the disposal or contracts which relate to the whole or parts of the asset or securities or interests in a company or group of companies.

Exclusive Business Cooperation Agreement

Chengdu Qilu entered into an exclusive business cooperation agreement with WFOE on 31 August 2018 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which Chengdu Qilu agreed to engage WFOE as its exclusive provider of business support and technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Without the prior written consent of WFOE, Chengdu Qilu and its subsidiaries shall not accept the consultation and/or service from any other third party, and shall not cooperate with any other third party. Under these arrangements, the service fees, subject to WFOE's adjustment, are equal to all of the net profit of Chengdu Qilu and its subsidiaries. WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Chengdu Qilu and its subsidiaries from previous financial periods, which will be wired to the designated account of WFOE upon issuance of payment notification by WFOE. WFOE enjoys all the economic benefits derived from the businesses of Chengdu Qilu and its subsidiaries and bears Chengdu Qilu's business risks. If Chengdu Qilu runs into financial deficit or suffers severe operation difficulties, WFOE will provide financial support to Chengdu Qilu.

The Exclusive Business Cooperation Agreement is for an initial term of ten years and is automatically renewable upon expiry or can be extended by WFOE for a term determined by WFOE unless terminated according to the terms of the Exclusive Business Cooperation Agreement.

Share Pledge Agreement

Chengdu Qilu, the Relevant Shareholders and WFOE entered into a share pledge agreement on 31 August 2018 (the "**Share Pledge Agreement**"). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Chengdu Qilu to WFOE as collateral security for any or all of their payments due to WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Powers of Attorney (as defined below). The Share Pledge Agreement will not terminate until (i) all secured debts and contractual obligations guaranteed by the Share Pledge Agreement are terminated or fulfilled; and (ii) WFOE exercises its exclusive option to purchase the entire equity interests of the Relevant Shareholders in Chengdu Qilu pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Relevant Shareholders may transfer or permit the encumbrance of any of their equity interests in and assets of Chengdu Qilu (including any equity interests in and assets of the subsidiaries of Chengdu Qilu) without WFOE's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Chengdu Qilu, which further strengthens the protection of WFOE's interests in Chengdu Qilu under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to WFOE's satisfaction within 30 days upon being notified by WFOE, WFOE may demand that the Relevant Shareholders and/or Chengdu Qilu immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to WFOE. The pledges under the Share Pledge Agreement have been duly registered with the relevant PRC legal authorities pursuant to the PRC laws and regulations.

Voting Rights Proxy Agreement and Powers of Attorney

On 31 August 2018, the Relevant Shareholders, WFOE and Chengdu Qilu entered into a voting right proxy agreement (the "**Voting Rights Proxy Agreement**"), pursuant to which, through the power of attorney (the "**Powers of Attorney**"), the Relevant Shareholders appointed WFOE or a director or any third party instructed by WFOE or its successor (including a liquidator replacing WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning Chengdu Qilu and to exercise all of its rights as a registered shareholder of Chengdu Qilu. These rights include:

(i) the right to propose, convene and attend shareholders' meetings;

(ii) the right to sell, transfer, pledge or dispose of shares;

(iii) the right to exercise shareholders' voting rights; and

DIRECTORS' REPORT

(iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of Chengdu Qilu. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Chengdu Qilu on behalf of the Relevant Shareholders. The Relevant Shareholders have each undertaken to transfer all assets obtained after the winding up of Chengdu Qilu to WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws.

As a result of the Powers of Attorney, the Company, through WFOE, is able to exercise management control over the activities that most significantly impact the economic performance of Chengdu Qilu. Should an event of default (as provided in the Voting Rights Proxy Agreement) occur, unless it is successfully resolved to WFOE's satisfaction within a reasonable time or 10 days upon being notified by WFOE, WFOE may terminate the Powers of Attorney immediately and request the defaulting party to compensate for the damages.

The Voting Rights Proxy Agreement shall automatically terminate once WFOE is permitted to directly hold the entire equity interests in Chengdu Qilu under the then PRC laws, following which WFOE will be registered as the sole shareholder of Chengdu Qilu.

Further details about the above Contractual Arrangements are set out in the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus.

No Material Change

Save as disclosed above, as at the date of this annual report, there was no material change in the Contractual Arrangements and/or the circumstances under which they are adopted.

Revenue and Assets in Relation to the Contractual Arrangements

Certain key financial information of Chengdu Qilu and its subsidiaries prepared in accordance with HKFRSs for the year ended 31 December 2022 is set out below:

For the year ended 31 December 2022, the net income of Chengdu Qilu and its subsidiaries was approximately RMB51.3 million, representing an increase of approximately 125.0% as compared to approximately RMB22.8 million for the year ended 31 December 2021. For the year ended 31 December 2022, the revenue of Chengdu Qilu and its subsidiaries accounted for approximately 50.5% of the Group's total revenue.

Confirmation from Independent Non-Executive Directors

The independent non-executive Directors have reviewed the continuing connected transactions under the Contractual Arrangements for the year ended 31 December 2022 and confirmed that:

(i) the transactions carried out during the year ended 31 December 2022 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operating Entities (i.e. Chengdu Qilu and its subsidiaries) has been substantially retained by WFOE (i.e. Anyixun Technology);

(ii) no dividends or other distributions have been made by Chengdu Qilu to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(iii) any new contracts entered into, renewed or reproduced between the Group and Chengdu Qilu during the relevant financial period pursuant to the terms of renewal and cloning under the exemption granted by the Stock Exchange are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

Risks Relating to the Contractual Arrangements and Measures Taken by the Company to Mitigate Risks

Risks Relating to the Contractual Arrangements

- In order to comply with the PRC laws and regulations limiting foreign ownership of internet businesses, we conduct our business through our consolidated affiliated entities in China through the Contractual Arrangements. If the PRC Government determines that these Contractual Arrangements do not comply with applicable regulations, our business could be materially and adversely affected.

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law of the PRC and its implementation rules and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- The Contractual Arrangements may not be as effective in providing operational control as direct ownership and Chengdu Qilu or its shareholders may fail to perform their obligations under the Contractual Arrangements.

- We may lose the ability to use and enjoy assets and licenses held by Chengdu Qilu and its subsidiaries that are material to the operation of our business if Chengdu Qilu or its subsidiaries declare bankruptcy or becomes subject to a dissolution or liquidation proceeding.

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

- Shareholders of Chengdu Qilu may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.

DIRECTORS' REPORT

- We conduct our business operation in the PRC through Chengdu Qilu and its subsidiaries through the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws.

- If we exercise the option to acquire equity ownership of Chengdu Qilu, the ownership transfer may subject us to certain limitations and substantial costs.

Further details of these risks are set out in the section headed "Risk Factors – Risks Relating to Our Contractual Arrangements" on pages 63 to 70 of the Prospectus.

Measures Taken by the Company to Mitigate Risks

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

(a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

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

(c) the Company will annually disclose the overall performance of and compliance with the Contractual Arrangements in its annual reports; and

(d) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board with reviewing the implementation of the Contractual Arrangements, and review the legal compliance of WFOE and the PRC Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Unwinding of the Contractual Arrangements

It is the intention of the Group to unwind the Contractual Arrangements when foreign investment in value-added telecommunications services is no longer restricted in the PRC. However, as at the date of this annual report, there is no unwinding of any of Contractual Arrangements or failure to unwind when the restrictions that led to the adoption of the Contractual Arrangements are removed.

DIRECTORS' REPORT

Related Party Transactions

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 27 to the consolidated financial statements. Except for the transactions described in the section headed "Continuing Connected Transactions" in this annual report, none of these related party transactions constitute connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules.

The related party transactions disclosed in note 27 to the consolidated financial statements are not continuing connected transactions that require annual reporting under Chapter 14A of the Listing Rules. Therefore, such transactions need not comply with the disclosure requirements under Chapter 14A of the Listing Rules.

Audit Committee

The Audit Committee has reviewed with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2022.

Auditor

The financial statements for the year ended 31 December 2022 of the Group have been audited by Deloitte Touche Tohmatsu, the auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor.

There has been no change of auditor of the Company since the Listing Date.

By order of the Board
360 Ludashi Holdings Limited
Tian Ye
Chairman

Hong Kong, 31 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

Unless otherwise stated, reference of the code provisions made in this corporate governance report in relation to the CG code is referred to the code provisions contained in the Appendix 14 to the Listing Rules in force during the year ended 31 December 2022. The Company is committed to maintaining and ensuring a high standard of corporate governance practices and the corporate governance principles adopted by the Company are in the interests of the Company and its Shareholders.

The Company has adopted the applicable code provisions set out in the CG Code in Appendix 14 to the Listing Rules. Except for code provision C.2.1 of the CG Code, the Company has complied with all the code provisions set forth in the CG Code during the Reporting Period. The main corporate governance principles and practices of the Company and details of the above-mentioned deviation are summarized below.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct for Directors to conduct securities transactions. The Company has made specific enquiry toward all Directors, and Directors have all confirmed that they complied with required standard set forth in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board of Directors currently consists of two executive Directors, three non-executive Directors and three independent non-executive Directors. The composition of the Board of Directors during the Reporting Period and as at the date of this annual report is set out below:

Executive Directors

Mr. Tian Ye *(chairman)*
Mr. He Shiwei

Non-executive Directors

Mr. Sun Chunfeng
Mr. Liu Wei
Mr. Zhao Dan

Independent Non-executive Directors

Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu

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

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Board has at all times met the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, and independent non-executive Directors representing at least one-third of the Board.

Chairman and Chief Executive Officer

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Tian Ye currently performs these two roles concurrently. The Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority within the Group will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. The Board will from time to time review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

Appointment, Re-election and Dismissal of Directors

Each Director (including non-executive Directors and independent non-executive Directors) has entered into a service contract or letter of appointment with the Company for a term of three years.

Pursuant to Article 84 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

In this regard, Mr. Liu Wei, Mr. Zhao Dan and Mr. Zhang Ziyu will retire from office at the AGM and shall be eligible for re-election.

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The reporting responsibilities of the Company's external auditor on the financial statements of the Group are set out in the section headed "Independent Auditor's Report" in this annual report.

CORPORATE GOVERNANCE REPORT

Responsibilities of and Delegation by the Board

The major powers and functions of the Board include, but are not limited to, convening the general meetings, presenting reports to the general meetings, implementing the resolutions passed at the general meetings, determining the operational plans and investment plans of the Group, determining the annual financial budgets and final accounts of the Group, determining the fundamental management systems of the Group, formulating profit distribution plans and loss recovery plans of the Group, and exercising other powers and functions as conferred by the Articles of Association.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

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

The Board and the management have clearly defined their authorities and responsibilities under various internal control and check and balance mechanisms. The Board shall not delegate matters to the Board committee(s), executive Directors or the management to an extent that would significantly hinder or reduce the ability of the Board as a whole to perform its functions.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

The following table lists the training record for each Director during the Reporting Period:

Name of Directors	Attendance at the training sessions	Reading training materials relating to the Company's business, the duties and responsibilities of being a Director and regulatory requirements
Executive Directors		
Mr. Tian Ye	✓	✓
Mr. He Shiwei	✓	✓
Non-executive Directors		
Mr. Sun Chunfeng	✓	✓
Mr. Liu Wei	✓	✓
Mr. Zhao Dan	✓	✓
Independent Non-executive Directors		
Mr. Li Yang	✓	✓
Mr. Wang Xinyu	✓	✓
Mr. Zhang Ziyu	✓	✓

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- to review the Company's compliance with the code provisions of the CG Code and disclosure in the corporate governance report under the Listing Rules.

The Board has reviewed the policies and practices on corporate governance and this corporate governance report.

BOARD MEETINGS, BOARD COMMITTEES MEETINGS AND GENERAL MEETINGS

The Board should meet regularly and Board meetings should be held at least four times a year. At least a 14-day notice of all regular Board meetings shall be given to Directors, who are given the opportunity to include other matters in the meeting agenda.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company held 4 Board meetings, 2 meetings of the Audit Committee, 1 meeting of the Remuneration Committee, 1 meeting of the Nomination Committee and 1 general meeting. The attendance record of each Director at the above meetings is set out as follows.

	Number of Meetings Attended/Held				
Name of Director	Board Meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	General meetings
Executive directors					
Mr. Tian Ye	4/4	N/A	1/1	1/1	1/1
Mr. He Shiwei	4/4	N/A	N/A	N/A	1/1
Non-executive directors					
Mr. Sun Chunfeng	4/4	N/A	N/A	N/A	1/1
Mr. Liu Wei	1/4	N/A	N/A	N/A	0/1
Mr. Zhao Dan	4/4	N/A	N/A	N/A	1/1
Independent non-executive directors					
Mr. Li Yang[1]	4/4	2/2	N/A	1/1	1/1
Mr. Wang Xinyu[1]	4/4	2/2	1/1	1/1	1/1
Mr. Zhang Ziyu[1]	4/4	2/2	1/1	N/A	1/1

Notes:

1. During the Reporting Period, apart from 4 Board meetings, the Chairman held 1 independent directors' communication meeting with the independent non-executive Directors without the presence of other Directors.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Company has established three Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Company believes that the independence of the Board is an essential component of a sound corporate governance. The Company has effective mechanisms in place, including but not limited to the Board and its committees may have access to independent professional advice on relevant matters of the Company if necessary at the Company's expense, to ensure that independent views are available to the Board. Such mechanism shall be reviewed by the Board annually, to ensure the high independence of the Board.

AUDIT COMMITTEE

The Audit Committee consists of three members: Mr. Zhang Ziyu, Mr. Wang Xinyu and Mr. Li Yang. The chairman of the Audit Committee is Mr. Zhang Ziyu.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information, oversee the financial reporting system, risk management and internal control systems of the Company and perform corporate governance procedures of the Company.

During the Reporting Period, the Audit Committee held 2 meetings in total, which reviewed the audited annual results of the Group for the year ended 31 December 2021 and reviewed the unaudited interim results of the Group for the six months ended 30 June 2022, the risk management and internal control system, the effectiveness of the internal audit function, the re-appointment of auditors, continuing connected transactions and other matters of the Group for the year ended 31 December 2021.

NOMINATION COMMITTEE

The Nomination Committee consists of three members: Mr. Tian Ye, Mr. Wang Xinyu and Mr. Li Yang. The chairman of the Nomination Committee is Mr. Tian Ye.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive Directors; make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and chief executive officer of the Company; and to review the policy on Board diversity.

During the Reporting Period, the Nomination Committee held 1 meeting in total, which reviewed the structure, number and composition of the Board, assessed the independence of independent non-executive Directors and reviewed the policy on Board diversity and nomination of directors and other matters.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members: Mr. Wang Xinyu, Mr. Zhang Ziyu and Mr. Tian Ye. The chairman of the Remuneration Committee is Mr. Wang Xinyu. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure for all Directors and senior management of the Group; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; to review the remuneration packages of Directors and senior management and ensure that no director is involved in deciding his own remuneration; and to consider and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules.

During the Reporting Period, the Remuneration Committee held 1 meeting in total, which reviewed the overall remuneration policy and structure for Directors and senior management and mode recommendations to the Board on the remuneration packages of Directors and senior management. Details of the remuneration of the Directors are set out in Note 11 to the consolidated financial statements.

BOARD DIVERSITY

The Group has adopted the Board diversity policy (the "**Board Diversity Policy**"). In order to achieve sustainable and balanced development, the Company deems the increasingly diversified Board as a key factor in supporting its strategic objectives and sustainable development. In determining the composition of the Board, the Company will consider the diversity of board members from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board. The policy is outlined as follows:

The Nomination Committee will discuss annually and agree to measurable objectives for the implementation of the Board Diversity Policy and make recommendations to the Board for adoption

Selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The composition of the Board will be disclosed annually in the corporate governance report.

The Nomination Committee will report annually, in the corporate governance report, on the Board's composition under diversified perspectives, monitor the implementation of this policy, and will review this policy in due course to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

The Board comprises eight members, including two executive Directors, three non-executive Directors and three independent non-executive Directors. The Directors have a balanced mix of experiences, including business management, strategic development, direct selling and social commerce, public administration and management, finance, auditing and accounting experiences. The Board members also obtained degrees or diplomas in various majors including computer science, computer information management, science, marketing, industrial electronic automation, systems engineering and business administration. Furthermore, the ages of the Directors range from 36 years old to 52 years old. Pursuant to Rule 13.92 of the Listing Rules, the Stock Exchange will not consider diversity to be achieved for a single gender board. Given its current composition of all-male Directors, as disclosed in the 2022 interim report published by the Company on 29 September 2022, in order to honor the Diversity Promise and comply with Rule 13.92 of the Listing Rules, the Company will introduce at least one female Board member to the Board on or before 31 December 2024, through the cooperation with external headhunters to enhance the efforts in soliciting suitable female candidates for directorship and, in the meantime, the Company will also continue to look for female candidates for directorship through internal promotions.

OVERALL GENDER DIVERSITY OF EMPLLOYEES

As of the date of this annual report, the Group has a total of 269 employees (including senior management), with male employees and female employees accounting for approximately 72.9% and 27.1% of the total workforce, respectively. In addition to achieving the Board Diversity Policy, the Company also pays attention to the balanced gender of the employees.

The Group has set the following measurable objectives to ensure the overall gender diversity of employees:

- The female employees represent at least a quarter of the total number of employees; and

- The turnover rate of female employees was kept at 20% or below of the total female employees.

The Group also faces a challenge in achieving the gender diversity of all employees. In addition to the fact that the main business of the Group belongs to a relatively small industry in nature, so it is difficult to hire suitable female employees, some female employees leave their jobs because they need to allocate time to take care of their families. Based on the above situation, the Group will consider adopting flexible working hours or the method of working from home for some positions under the practical principle, which can not only reduce the employee turnover rate, but also help attract female employees to join the Group.

The Group believes that the above measures to promote the gender diversity policy shall help in attracting more female employees with potential and enriching the gender diversity of the Group. We will also review the overall gender diversity of the employees as appropriate according to the business development of the Group.

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

The Company has adopted a policy for nomination, pursuant to which, the Nomination Committee shall advise the Board on the appointment of any director in accordance with the following procedures and process:

1. When identifying or selecting suitable candidates, the Nomination Committee may seek any source of assistance as it sees fit, including referrals from existing directors, use of public advertisement or external consultancy services, and recommendations from the Shareholders of the Company.

2. The Nomination Committee shall conduct preliminary review over the qualifications and conditions of the candidates for directorship by convening Nomination Committee meeting before recommending suitable candidates for directorship to the Board. The Board shall have the right of final decision in all matters relating to the nomination of candidates for election at the general meeting.

3. For details of the procedures for shareholders to nominate a person for election as a Director, please refer to the Procedures for Shareholders to Nominate a Person for Election as a Director (《股東提名人士參選董事的程序》) of the Company.

4. The candidate nominated by the Board of Directors to stand for election at a general meeting (the "**Board Candidate(s)**") and the candidate nominated by Shareholders to stand for election at a general meeting (the "**Shareholder Candidate(s)**", together with the Board Candidate(s), the "**Candidates**") shall submit the necessary personal information, together with their written consent to be appointed as a Director and to the public disclosure of their personal information for the purpose of or in relation to their standing for election as a Director. The Nomination Committee may request the Board Candidate to provide additional information and documents, if considered necessary.

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to:

- reputation for integrity;
- professional qualifications and skills;
- achievements and experience in the Internet industry;
- time available for performing duties;
- independence of independent non-executive directors; and
- diversity in all aspects of the Board, including but not limited to gender, age (at least 18 years old), cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND OF REMUNERATION

Details of the remuneration of the Directors are set out in Note 11 to the audited consolidated financial statements.

Pursuant to code provision E.1.5 of the CG Code remuneration of senior management, including those members of senior management who are not the directors, by band of remuneration for the year ended 31 December 2022 is set out below:

Remuneration Bands	Number of Individual
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,500,000	1
HK$4,000,001 to HK$4,500,000	1

EXTERNAL AUDITOR'S REMUNERATION

The remuneration of the auditor in respect of audit and non-audit services provided to the Group for the year ended 31 December 2022 is summarized as below:

Service Category	Fees Payable or Paid *(RMB'000)*
Audit services	1,750
Non-audit services	460
Total fees	2,210

The audit services fee represents the service fee in connection with the annual audits for 2022. The non-audit services fee mainly represents the interim results review fee for the six months ended 30 June 2022 and the non-audit services fee for the period ended 31 December 2022.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control systems of the Company. The Board is committed to implementing an effective and sound risk management and internal control system to safeguard the interest of the Shareholders and the assets of the Company. The Board has appointed the management to implement the risk management and internal control system within the delegated scope, as well as to review all control and risk management functions in respect to finance, operation, and compliance with laws and rules.

The Board acknowledges that it has responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems and to review their effectiveness. The Board delegates its responsibility to the Audit Committee to review the practices of the management on an annual basis with respect to risk management and internal control, including the design, implementation and supervision of the risk management and internal control systems, and review the effectiveness thereof.

CORPORATE GOVERNANCE REPORT

To cope with various risks associated with the Group's operations, we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Key risk management objectives of the Group include: (i) identifying different risks of our operations; (ii) assessing and prioritizing the identified risks; (iii) developing appropriate risk management strategies for different risks; (iv) execution of measures to respond to risks; and (v) monitoring and managing risks and our risk tolerance level.

The Company periodically reviews each position of the operating departments and other functional departments to identify, analyse and evaluate the risks. The risk assessment results and the proposed internal control measures are submitted to the Directors and senior management of the Company for review and approval. The Directors and senior management of the Company are also responsible for supervising the effectiveness of implementation and future execution of the risk control measurement.

The Board oversees and manages the overall risks associated with the Group's operations. The Company has adopted a series of internal control policies, procedures and programs designed to achieve objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Key points of the Company's internal control system include the following:

- our Directors and senior management attended training session in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;

- we have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, continuing connected transactions and information disclosures;

- we have implemented internal control policies related to financial management, including treasury management, financial reporting and disclosure, and budgetary management; and

- we have implemented a series of internal rules and policies relating to our business operations.

The Board has the responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving operation objectives to uphold the principle of balanced risk and return, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems regularly. The Board should ensure that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least annually. Such systems are designed to manage rather than eliminate the risk of failure to achieve operation objectives, and can only provide reasonable and not absolute assurance against material error or loss.

The Company has set up an internal audit department to analyse and evaluate the Company's risk management and internal control systems. The results of internal audits and reviews will be reported to the Audit Committee and the Board. Within the scope of review on internal control, the internal audit department believes that the Group's internal control system has no significant control defects. The review results have been reported to the Audit Committee and the Board.

CORPORATE GOVERNANCE REPORT

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board conducts a review of the effectiveness of risk management and internal control systems of the Group at least annually. The Board conducted an annual review over the effectiveness of risk management and internal control systems of the Group for the year ended 31 December 2022, and the management confirmed the effectiveness of the risk management and internal control systems within their terms of reference during the year. The Board believes, without any evidence to the contrary, the Group has provided reasonable assurance as to compliance with the risk management and internal control systems for the year ended 31 December 2022, which has prevented any significant financial misstatement or loss, and included protection of assets, appropriate maintenance of accounting records, reliability of financial data, compliance with applicable laws and regulations, and identification and control of business risks. In connection with the effectiveness of risk management and internal control systems, the Board has confirmed that no significant areas of concern have been identified and considered that such risk management and internal control systems were effective and adequate during the Reporting Period, including sufficient resources, appropriate qualifications and experiences of our employees, and employee training programs, and that there are adequate budgets for accounting, internal audit and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

The Group has established policies for external communication and handling and disseminating inside information. The Company's procedures for inside information in accordance with the policies and internal control measures are as follows:

(i) The insiders and/or officers of the Group must disclose the inside information to the public to the extent reasonably practicable.

(ii) The Board shall take reasonable measures to keep the inside information and the relevant announcement (if applicable) confidential until published.

(iii) All inside information must be kept strictly confidential.

(iv) Disclosure must be made in a manner that provides the public with an equal, timely and effective access to the information, such as through the electronic publication system operated by the Stock Exchange.

Each Director, manager or company secretary or any other person involved in the management of the Group shall take all reasonable measures from time to time to ensure that the Group has adequate precautionary measures to prevent itself from breaching the disclosure requirements.

Generally, no employee or Director may disclose, discuss or share with outside parties (except for communication with the Group's advisers who bear the responsibility of confidentiality, and other categories of persons as allowed under the laws) the information of price-sensitive nature about the Company that has not been released to the public.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Cheng Ching Kit ("**Mr. Cheng**") is the company secretary of the Company. Mr. Cheng is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services. His principal contact person in the Company is Ms. Huang Chen, the representative of securities affairs of the Company.

For the year ended 31 December 2022, Mr. Cheng has received no less than 15 hours of professional training in relation to reviewing Listing Rules and other compliance requirements.

PROCEDURES OF SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETINGS AND PRESENT PROPOSALS AT THE GENERAL MEETINGS

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

For Shareholders' right to nominate candidates for directors, please refer to "Procedures for Shareholders to Nominate a Person for Election as a Director" on the website of the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company at 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC. The Company will not normally deal with verbal or anonymous enquiries.

DIVIDEND POLICY

The Company has adopted a dividend policy.

In accordance with the dividend policy, in deciding whether to propose the payment of dividends and the amount of dividend payable, the Board will take into consideration the following factors of the Group, including but not limited to:

- overall business performance;
- financial results;
- capital requirements and surplus;
- shareholders' interests;

CORPORATE GOVERNANCE REPORT

- any limitation from contracts or agreements on payment of dividends by the Company; and
- any other factors as the Board may consider relevant.

The Company will continue to review its dividend policy in light of its financial position and the current economic environment.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Board considers that effective communication with its Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. In order to to maintain a high level of transparency and ensure that the Shareholders and potential investors can obtain updated information about the Group, the Company has in place a shareholders' communication policy (the "**Shareholders' Communication Policy**"), which sets out a number of ways to ensure effective and efficient communication with shareholders is achieved, including but not limited to our responses to shareholders' enquiries, corporate communications (in both English and Chinese), posting of relevant information on the Company's website, shareholders' meetings and investment market communications, to ensure that shareholders' enquiries and view are appropriately addressed.

The Company publishes announcements, financial information and other relevant information through the Stock Exchange, and such information shall be available to the public on the website of the Company at www.ludashi.com. In order to ensure the effective communication with Shareholders, Shareholders are encouraged to attend the annual general meeting to exchange views with the Board or the management.

The Board reviews the effectiveness of the Shareholders Communication Policy on a regular basis, to ensure that shareholders' views and concerns are appropriately addressed. The Company has evaluated the aforesaid commuinication channels with the Shareholders, and considered that such channels were effective during the Reporting Period.

Shareholders and investors may send written enquiries or requisitions to bring to the attention of the Board through the following methods:

Address: 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC
E-mail: ir@ludashi.com

Shareholders, investors and members of the public should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. The contact details for the Company's Hong Kong branch share registrar are as follows:

CORPORATE GOVERNANCE REPORT

Tricor Investor Services Limited

17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong
Telephone: (852) 2980 1333
Fax: (852) 2810 8185
Email: is-enquiries@hk.tricorglobal.com

CONSTITUTIONAL DOCUMENTS

The memorandum of association and the articles of association of the Company have been amended and restated on 27 May 2022, and the updated versions are available on the websites of the Company and the Stock Exchange. Save for the aforesaid, there had been no change in the memorandum of association and the articles of association of the Company during the Reporting Period.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE REPORT

The report is the fourth environmental, social and governance report (hereinafter referred to as the "**ESG Report**" or the "**Report**") of 360 LUDASHI HOLDINGS LIMITED (hereinafter referred to as the "**Company**") and its subsidiaries (hereinafter referred to as the "**Group**" or "**we**"), to outline the Group's concept of sustainable development, explain our environmental, social and governance (hereinafter referred to as "**ESG**") policies, as well as our work and achievements during the year, and report the Group's work and future development goals in ESG.

1.1 Standard of the Report

The Report is compiled in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide (hereinafter referred to as the "**ESG Guide**") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the "Comply or explain" provisions. For details on the Group's corporate governance, please refer to the "Corporate Governance Report" chapter in the annual report of the Group, or the official website of the Group. Readers can refer to Appendix II to the Report: Index to the Environmental, Social and Governance Reporting Guide of the Stock Exchange for inquiry.

Materiality	The Report clarifies key stakeholders' important concerns through the participation of and communication with key stakeholders, and discloses the material ESG factors.
Quantitative	The Report discloses the statistical standards, methodologies, assumptions and/or calculation tools used herein in respect of reporting emissions/energy consumption, as well as the sources of conversion factors.
Balance	The Report provides an unbiased picture of the Group's performance during the Reporting Period and avoids selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the Report reader.
Consistency	Unless otherwise specified, the Report uses the statistical methodologies for the data disclosed in the Report consistent with those in previous years.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.2 Scope of the Report

The Report describes the Group's ESG-related work and policies and the performance of the Group's social responsibility from 1 January 2022 to 31 December 2022 (hereinafter referred to as the "**Year**"), while the environmental key performance indicators include the performance of the Chengdu office.

1.3 Language of the Report

The Report is published in traditional Chinese and English. In case of discrepancy between the texts, the traditional Chinese version shall prevail.

1.4 Feedback on the Report

The Group regards the opinions of stakeholders as an important basis for achieving sustainable development. If there are any questions or suggestions for the Report, welcome to contact us by email (ir@ludashi.com).

2. ENTERPRISE ESG MANAGEMENT

2.1 Statement of the Board of Directors

The Board of Directors is fully responsible for the ESG strategies of the Company. We believe that ESG management is very important for the sustainable development of enterprises. Therefore, the Board of Directors, as the decision-making authority of the ESG matters of the Group, regularly reviews and supervises the ESG guidelines and policies, and identifies and supervises the ESG risks that the Company will face in its daily operations. During the Year, we reviewed the established environmental objectives and their progress, and conducted an online questionnaire survey on the internal and external stakeholders to identify materiality issues and prioritize them.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.2 ESG Structure

The Group has set up an ESG Working Group to supervise and govern the ESG matters of the Group. The ESG Working Group is under the direction of the Chief Executive Officer, and will report to the Executive Committee and the Board of Directors on a regular basis to assist the Board of Directors in evaluating and determining the effectiveness of the Group's ESG risk management and internal control system, and to integrate the philosophy of sustainable development with the Group's overall strategies, policies and business plans. The ESG Working Group will convene meetings at least once a year and report the progress and achievements of its work to the Executive Committee and the Board of Directors on a regular basis.

The main responsibilities of the ESG Working Group are as follows:

- Identify the significant operations related to or important to the Group, as well as ESG matters affecting shareholders and other important stakeholders, including quality of working environment, environmental protection, operating practices, community participation and animal welfare;
- Maintain the operation of the corporate social responsibility management system, and enhance employees' awareness in this regard;
- Promote the functional departments to implement various ESG policies;
- Arrange to inform the stakeholders of significant ESG matters, identify their opinions on these matters and respond to these opinions through appropriate channels;
- Responsible for reviewing and monitoring the Group's ESG policy and practices;
- Ensure that the Group meets relevant laws and regulatory requirements, monitor and respond to the latest ESG issues; and
- Put forward relevant suggestions to the Board of Directors in due course, so as to improve the Group's performance in ESG and review the achievement of the objectives.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3 Communicate with Stakeholders

In order to better respond to the expectations of various stakeholders, we communicated with various stakeholders through various communication channels during the Year. We pay close attention to the opinions and suggestions of stakeholders on the Group's sustainable development performance through but not limited to shareholders' meetings, annual and interim reports, company activities, customer satisfaction surveys and employee satisfaction surveys, so as to safeguard our common interests with stakeholders.

Main Stakeholders	Communication Channels
Customers	• Customer service center • Daily operation/communication • Online service platform • Phone • E-mail
Shareholders	• Annual general meeting and other shareholders' meetings • Interim report and annual report • Results announcement • Shareholders' visit
Employees	• Channels for employees to express their opinions (forms, mailboxes, etc.) • Work performance evaluation and interview • Meeting and interview
Investors	• Results announcement • Senior management meeting • Meeting and interview
Business partners	• Meeting • Visit • Reporting
Regulatory authorities	• Compliance report
Media	• Press release • Results announcement
Community/ non-government organization	• Volunteer activities • Seminar/lecture/workshop • Conference
Peers	• Strategic cooperation project • Communication conference
Suppliers	• Supplier management procedure • Supplier/Contractor Evaluation System • Meeting • Field inspection

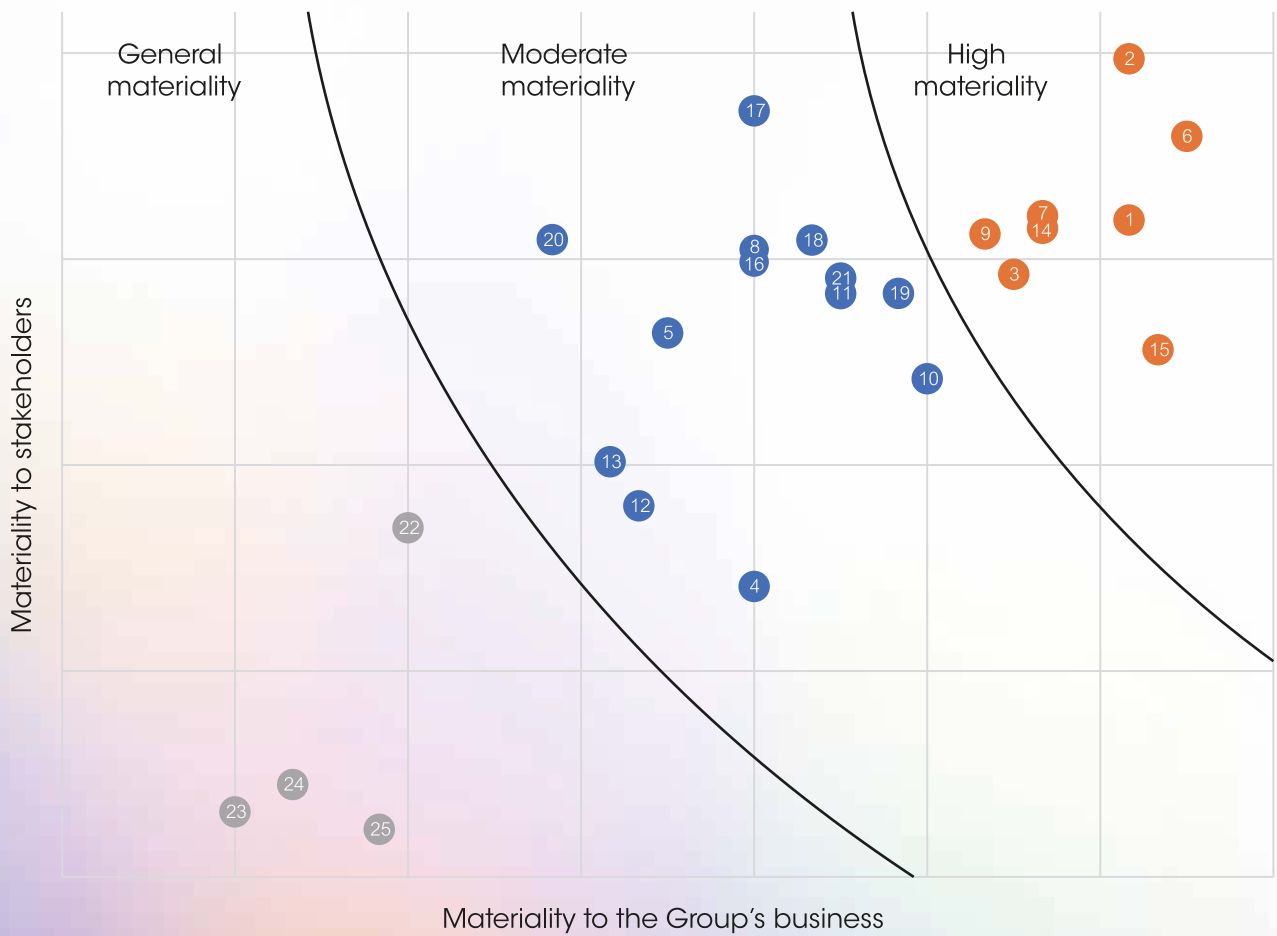
2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.4 Materiality Assessment

During the Year, the Group conducted a materiality assessment survey on several internal and external stakeholders through an online questionnaire, and drew a materiality matrix according to the survey results of the online questionnaire to review the materiality issues of the Group. Firstly, the Group selected a total of 25 sustainable development issues with reference to the Guide of the Stock Exchange, and established a database of materiality issues. Next, the Group invited internal stakeholders including the Company's directors and senior management and external stakeholders including employees, customers, suppliers, business partners, media and communities/non-governmental organizations to fill in the online questionnaire. Finally, the Group reviewed the materiality of each issue from two dimensions, i.e. "materiality to business" and "materiality to stakeholders", drew a materiality assessment matrix, and summarized the materiality assessment results.

According to the results of the online questionnaire survey, we drew an materiality matrix to show the ESG materiality issues identified by the internal and external stakeholders of the Company, and their importance has been approved and confirmed by the Board of Directors. The chart below shows the high materiality issues, moderate materiality issues and general materiality issues form top right to bottom left.

ESG Materiality Analysis Matrix



2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality issues for the Group	No.	Issues	Sections for Responses
Compliance operation	1	Corporate governance	2. Enterprise ESG Management
	2	Compliance with laws and regulations	3. Corporate Compliance Governance
	3	Economic performance	3. Corporate Compliance Governance
	4	Whistle-blowing mechanism	3. Corporate Compliance Governance
	5	Anti-fraud and anti-corruption	3. Corporate Compliance Governance
	6	Privacy protection and data safety	3. Corporate Compliance Governance
	7	Protection of intellectual property rights	3. Corporate Compliance Governance
	8	Customer satisfaction and complaints responding	3. Corporate Compliance Governance
	9	Quality control	3. Corporate Compliance Governance
	10	Product R&D and innovation and technology development	3. Corporate Compliance Governance
	11	Market competitiveness	3. Corporate Compliance Governance
	12	Propaganda and products/ service tags	3. Corporate Compliance Governance
	13	Supplier management	3. Corporate Compliance Governance
Caring for employees	14	Occupational health and safety	4. Focus on Corporate Talents
	15	Employee training and development	4. Focus on Corporate Talents
	16	Employee diversification, non-discrimination and equal opportunity	4. Focus on Corporate Talents
	17	Prevention of child labor and forced labor	4. Focus on Corporate Talents
	18	Employee communication and care	4. Focus on Corporate Talents
	19	Employee benefits	4. Focus on Corporate Talents
	20	Labor relationship	4. Focus on Corporate Talents
	21	Qualifications and professional conduct	4. Focus on Corporate Talents
Corporate environmental protection	22	Green operation	5. Focus on Environmental Protection
	23	Respond to climate change	5. Focus on Environmental Protection
	24	Employee's environmental awareness	5. Focus on Environmental Protection
Supporting communities	25	Community investment and engagement	6. Invest in Community Public Welfare

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. CORPORATE COMPLIANCE GOVERNANCE

3.1 Guarantee Information Security

The customer privacy and information security are one of the most important aspects of the Group. We strictly complied with the Cyber Security Law of the People's Republic of China, Provisions on Technical Measures for Internet Security Protection and the laws and regulations of the place of operation. At the same time, we have established an information security guarantee system, and formulated policies such as "Operation and Management Mechanism for Information System", "Information System Management System", "Management Specification for Database Operation", "Processing Mechanism for Security Incidents", "Disaster Recovery Plan" and "Non-disclosure System" to safeguard the information security of the Group.

In order to standardize the management and maintenance of the Company's information system and ensure the stable and safe operation of the system software and hardware, we have systematically managed the information server management, information system application management, information system change management, and information system. We guaranteed the "7 * 24" normal operation of the server (except the system maintenance period), regularly scanned the server system, checked the use of the server's disk space, found the abnormal operation of the server in time and made records to ensure the daily stable operation of the server. In addition, the administrator should keep the account and password of the server administrator strictly confidential to ensure the security of the system and prevent the illegal intrusion into the system.

The Group pays attention to the prevention of server viruses, carries out virus detection on a regular basis, and deals with viruses immediately when found. At the same time, we also pay close attention to the situation and reminders of virus prevention in the IT industry, and adjust the security parameters of the server according to the reminders of the industry to prevent the server from being attacked. In the daily work, we have established a virus protection system, which will automatically clear the viruses when found, or the administrator chooses to deal with such viruses.

In view of the security incidents that may affect the normal business development of the Group and cause the business platform to fail to operate normally due to damage, change and disclosure, we have formulated the "Processing Mechanism for Security Incidents", organized an emergency leading group, an emergency management group and an emergency working group, defined the division of responsibilities and coordinated the corresponding work to ensure that all emergency work was completed by designated personnel. According to the emergency level and development trend of the business platform system, as well as the level of impact (scope and time) on the service users, we have classified the security incidents into three levels, i.e. Level III, Level II and Level I, and judged the severity of the incidents in time and dealt with them in different levels.

We have established a disaster recovery management team for network system services, which is responsible for the overall command of system recovery work, determining the severity of the damage caused by the system in the event of a disaster, and starting the system disaster recovery mechanism to ensure that the Company can quickly restore the services of key businesses in the event of a disaster in the information system.

This Year, the Group received no complaints related to data protection.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.2 Give Priority to Customer Services

The Group pays attention to customers' needs, develops the online game business and the tools and software for computers and mobile devices, and acquires new players on the basis of maintaining a large number of users. The Group has abided by the Law of Consumers Rights of People's Republic of China, Law of E-Commerce of the People's Republic of China, Regulations on the Personal Information Protection of Telecommunication and Internet Users, Interim Management Measures for Cyber Games, Notice on the Implementation of Online Game Anti-Addiction System for Protecting the Physical and Mental Health of Minors, Comprehensive Implementation Plan on the Prevention and Control of Children and Adolescents' Myopia and Notice on Strengthening the Management of the Virtual Money of Network Games, and continuously improved our service quality.

As a high-tech enterprise focusing on the computer software business, ensuring the privacy and security of users information and avoid data leakage is the key for us to continuously develop our businesses. We have standardized the "Customer Information Storage Rules" to help protect the security of customer information. In order to reduce the risk of data leakage, we have used one-way encryption for user passwords, and the algorithm is irreversible. At the same time, we have set an IP access white list of database servers and strictly controlled the access sources. We have started the SQL audit function, recorded all access sources and access behavior information, and made all security and fault incidents well documented. We also backed up the data twice a week to avoid the loss caused by accidental deletion of data.

We also established telephone, WeChat, e-mail, online customer service, remote software and other channels to communicate with customers, to ensure that users' needs receive timely feedback, and to supervise and assess the service process of customer service staff, so as to help us continuously improve our service capabilities and meet customers' needs. At the same time, we collected customers' opinions to improve the service quality. If a customer was dissatisfied with the services, the customer could also file a complaint about the customer service. We would record the complaint contents and analyze the reasons for the complaint, and put forward a feasible solution to solve the customer's complaints as soon as possible.

During the Year, the Group handled 462 consultant services and complaints, with a customer satisfaction of 87.31%.

3.3 Perform Product Responsibility

Product quality is the cornerstone of the long-term development of the Group's businesses. As a reliable hardware expert and a leading Internet company, the Group has the most comprehensive computer hardware information database in the industry. In order to adapt to most types of mobile phone products in China, we have released several versions of Android version evaluation to meet the market needs. In addition, we have also established a product testing department to control the quality of products and ensure that the products entering the market meet the corresponding standards.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.4 Anti-corruption Governance

The Group has zero tolerance for any violation of professional conduct and business ethics, and strictly prohibits all forms of illegal acts such as bribery, extortion, fraud and money laundering. The Group strictly complies with laws and regulations such as the Criminal Law of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China. In order to prevent fraud, strengthen governance and internal control, and reduce the risks of the Group, we have developed policies and processes such as "Anti-fraud and Anti-corruption Policy", "Interest Conflict Policy" and "Reporting Policies and Processes" to urge all relevant personnel to strictly comply with relevant laws and regulations, professional ethics and standards and the Company's rules and regulations, and establish a good atmosphere of honesty and integrity.

We have integrated the anti-fraud work into our daily operations, and designated the Anti-Fraud Committee as the permanent anti-fraud organization, which is responsible for organizing and implementing the inter-departmental and group-wide anti-fraud work. The Anti-Fraud Committee was responsible for accepting whistle-blowing, registering them, organizing investigation of fraud cases, issuing handling opinions and reporting to the management and the executive directors, and listening to the work guidance of the executive directors.

We provided employees with a safe and confidential way to encourage them to fulfill their whistle-blowing responsibilities. All reports would be recorded, reviewed and independently investigated if necessary. The Group kept confidential the employees who reported fraud, and unless it was a malicious report, no adverse situation would happen to any employee because of whistle-blowing. All the directors of the Group participated in the anti-corruption training and read in detail the Toolkit on Directors' Ethics issued by the Independent Commission Against Corruption. However, due to the disruption of COVID-19, we were unable to provide anti-corruption training to all of our employees this Year and we will provide anti-corruption training to all employees in the future.

This Year, all the directors of the Group participated in the anti-corruption training, and the Group and its employees were not involved in corruption litigation cases.

3.5 Supply Chain Management

The Group strictly complied with the Bidding and Tendering Law of the People's Republic of China and the Implementation Regulations on the Bidding and Tendering of the People's Republic of China and other laws and regulations effective in the place of its operation. In order to strengthen the cooperative relationship and common development with suppliers, we have formulated the "Procurement Service Management System" to ensure the normal operations of the procurement service systems of the Group and its branches and standardize the Company's procurement.

Before cooperating with a new supplier, we will first complete the basic investigation of the supplier, including obtaining its business license, and carry out the promotion service test and evaluation for at least three days. Then the salesman of the Business Development Department needs to fill out the "Basic Information Questionnaire of New Supplier" to record the basic data of the supplier and the test and evaluation results, and then the Market Director will sign the "Basic Information Questionnaire of New Supplier" to confirm whether to accept the supplier. Every time the contents of the list of qualified suppliers are added, deleted or changed, such addition, deletion or change shall be reviewed by the Market Director, and the review records shall be kept. In order to ensure that the contents of the list of qualified suppliers have not been modified without authorization, the Market Director is required to check the list of qualified suppliers every six months to confirm that the suppliers on the list have been approved and the information has been updated.

In terms of supplier management, our evaluation criteria include product/service quality, service level, reputation, etc. We advocate sustainable procurement and tend to buy environmentally sustainable products and services. In addition, when choosing suppliers, we tend to choose suppliers with environmental awareness, and we will also know whether they have environmental awareness through communication. At the same time, we also choose companies that have no negative news related to social responsibility, and do not cooperate with companies with employee scandals or companies with negative social news.

For the existing suppliers, we will score/rate them annually, and then fill in the corresponding assessment results in the "Supplier Assessment Table", and suppliers who are recorded more than 3 times of results below the qualified points will be required to terminate contracts with the Group. We will draw up the purchase quantity according to the annual purchase budget, select at least three suitable suppliers for price comparison, and then compile the "Price Comparison Table" to record the price comparison results and write down the reasons for the selection of suppliers.

During the Year, the Group had a total of 95 major suppliers from Mainland China and Hong Kong, which were in game, mobile device and PCs sectors.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.6 Respect Intellectual Property Rights

As a high-tech enterprise, the Group attaches great importance to the maintenance and management of intellectual property rights. We strictly abide by the Anti-Unfair Competition Law of the People's Republic of China, the Intellectual Property Law of the People's Republic of China, the Regulations on the Implementation of the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China, the Computer Software Copyright Registration Measures, the Internet Network Domain Management Measures of the People's Republic of China and other laws and regulations, so as to safeguard our own intellectual property rights and prevent infringement of other intellectual property rights.

We have developed the "Registration Agreement for Game Users of Ludashi". While providing products and services to users, we will safeguard our own information, works and data, and their copyrights, patents, trademark exclusive rights and other intellectual property rights shall not be used, copied, disseminated, forged, imitated, modified, adapted, translated, assembled, published, decompiled or disassembled in any form, otherwise we have the right to immediately terminate the provision of products and services to users, and pursue their infringement liabilities on intellectual property rights in accordance with the law.

We have also formulated the "Requirements for the Group's Internal Patent Application" to explore and develop high-quality project resources within the Group. For departments with R&D and technical personnel, we set the application tasks, and the inventor and the person in charge of the matter cooperate together to achieve the result of successful patent application.

The Group strictly abides by the advertising-related laws and regulations such as the Advertising Law of the People's Republic of China, the Advertising Management Regulations and the Interim Measures for Internet Advertising Management, and insists on honest marketing to avoid deceptive and misleading information in the published advertisements.

4. FOCUS ON CORPORATE TALENTS

4.1 Clarify the Rights of Employees

The Group is well aware that employees are the source and motivation for the sustainable development of enterprises. We respect the value of employees, protect their rights and interests, help their growth and care about their health. We strictly comply with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Implementation Regulations of the Labor Contract Law of the People's Republic of China, the Law on the Protection of Minors of the People's Republic of China, the Provisions on the Prohibition of Child Labor and other relevant laws and regulations, and have formulated the "Employee Handbook of Ludashi" and the "Employee Code of Conduct".

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The recruitment work of the Group is based on meritocracy in admissions, ensuring that the recruitment work is fair and open without any discrimination due to factors such as gender, marital status, age, race, skin color, disability and religion. We ask for identification documents at the time of signing the employment contract for those who pass the interview, so that we can verify their real age and avoid using child labor. The Group implements a standard working hour system to ensure that employees have sufficient rest time, and encourages employees to improve their work efficiency and avoid unnecessary overtime. If overtime is really necessary, it should be approved by the department head in advance via email to avoid forced labor. This Year, the Group was not involved in the employment of child labor or forced labor.

We respect the employee's leaving or staying. When receiving a resignation application of an employee, we will interview him/her to find out the reasons for the resignation, and assist him/her to go through the resignation procedures and make relevant work handover.

During the Year, the Group had a total of 269 employees. The distribution of the employees of the Group during the Year is as follows:

Indicators	Unit	2022
Total number of employees	person	269
Number of employees by gender		
Female	person	73
Male	person	196
Number of employees by employment type		
Short-term contract/part-time employees	person	7
Full-time junior employees	person	260
Full-time senior management	person	2
Number of employees by age group		
Below 30	person	140
30-50	person	127
Over 50	person	2
Number of employees by geographical region		
Southern China	person	269
Others (including Hong Kong, Macau and Taiwan)	person	0

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.2 Care about the Health of Employees

The Group is committed to creating a safe and comfortable working environment for employees. We strictly abide by the Law of the People's Republic of China on Work Safety, the Fire Prevention Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and other laws and regulations. During the Year, the Group did not receive any complaint or litigation regarding violation of health and safety laws, and there was no case of work-related fatalities in the past three years.

In times of the serious outbreak of the COVID-19 pandemic, we distributed masks to employees and permitted them to work at home, and at the same time disinfected the office to ensure the safety of the workplace. We also provided annual physical examination for employees to ensure their physical and mental health. In addition, we provided the health and safety-related training for employees on a daily basis, held regular fire drills and rescue and escape drills, and established countermeasures to improve employees' capabilities to cope with dangers.

4.3 Develop Employees' Potential

The Group deeply understands that talent cultivation and development are the reasons for the Company's continuous progress and development, and also the key to our career success. We spare no effort to provide a lot of training for employees, and are committed to providing personal growth planning for each employee and improving employee's working abilities. After new employees join the Company, the Human Resources Department will arrange and organize the induction training for new employees to help them understand the Company and carry out their work smoothly. The head of the department will make a training plan according to the businesses or functions of the department, and provide new employees with the professional training combined with work practice to help them develop into experts in the department or field. In 2022, because the COVID-19 pandemic was still grim and the Group's business operation was stable without major changes, the Group did not provide training based on the idea of putting employees' health and safety first. In the future, under the premise of ensuring the health and safety of employees, we will provide employees with a variety of training that will help improve their business abilities and benefit the development of the Company.

We have also established a scientific and standardized assessment system to effectively help employees manage their goals and tasks, and at the same time evaluate their performance and value through enhanced communication, so as to achieve common improvement and progress. We conduct performance assessments on employees quarterly and annually, and take the assessment results as the basis for post adjustment and salary adjustment.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.4 Care for Employees' Lives

We care about all aspects of employees' lives and help them solve their worries. We have paid the five social insurances and one housing fund for each employee according to law, among which the social security accumulation fund is paid according to the highest proportion of personal actual salary in the local area, and purchased supplementary medical insurances for each employee and their children to protect the health of employees and their families. In addition, we will also provide corresponding gifts, cash gifts or solatium on traditional festivals, employees' birthdays, and employees' marriage or death of relatives. At the same time, we are also committed to ensuring the physical and mental health of employees, providing meal subsidies for employees during their work, ensuring employees' meals, and providing monthly team building expenses for each team to strengthen team communication and help employees relax.

The salaries of the employees of the Group are determined by their experience, competitiveness, skills and job qualifications. We will provide quarterly bonuses, annual bonus, stock options and share incentive plans to employees according to their business performance. In addition to national holidays, we also provide employees with paid annual leave, personal leave, sick leave, marriage leave, maternity leave, prenatal check-up leave, breastfeeding leave, paternity leave, funeral leave, etc., to balance their work and life.

5. FOCUS ON ENVIRONMENTAL PROTECTION

The Group is well aware that the long-term development of enterprises is closely related to environmental sustainability. We strictly abide by the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China and other relevant laws and regulations, and have formulated the Corporate Environmental Protection Policy. We improve the environmental management systems and measures, and strive to provide sustainable development services. Our daily business operations do not involve production, and the main emissions come from the consumption of electricity, water resources and office supplies generated by daily operations, which has little impact on the environment. We have been committed to beautifying the environment, and have made positive contributions in enhancing the environmental awareness of the employees of the Group, promoting employees' participation in environmental protection, urging others' environmental behaviors, and promoting environmental protection in buildings.

In the previous year, we set an environmental goal to maintain or gradually reduce power consumption, water consumption and waste generation under similar operating levels. However, due to the employment of new employees in this Year, the number of employees increased, resulting in a slightly reasonable increase in power consumption, water consumption and waste production. In the future, we will continue to strictly monitor the consumption of energy and water, reduce the amount of waste, and try our best to reduce the impact on the environment while increasing our businesses.

This Year, the Group strictly complied with all applicable environmental laws and regulations, and there was no monitored incident due to violation of laws related to environmental protection during the Reporting Period.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.1 Advocate Energy Conservation

The Group advocates employees to save energy, use daylight lighting as much as possible during the day with sufficient light, clean lamps regularly, keep lighting devices and electric lamps clean, and try to improve their energy efficiency. At the same time, the Group adopts the LED lamps with high energy efficiency, and requires employees to turn off the lights in time when leaving the office. For the air conditioning system, we will regularly clean the filters to improve the refrigeration efficiency, and regularly overhaul it to reduce the possibility of refrigerant leakage. We also allow employees to work in casual clothes in hot weather to reduce the use of air conditioners. For other electronic equipment and electrical appliances, we have also formulated a series of energy-saving measures. We give priority to purchasing the electronic equipment with energy efficiency volume label to reduce energy consumption. At the same time, we will set a timed automatic standby mode for computers, and adopt virtualization calculator equipment to reduce power consumption and hardware installation.

The Group actively implemented the energy-saving measures. This Year, the power consumption of the Group's Chengdu office was198,133.10 kWh, and the power consumption was 51.74 kWh per square meter. This Year, due to the increase in the number of employees in our Chengdu office, the power consumption increased slightly as compared with the previous year.

5.2 Greenhouse Gas (GHG) Management

According to the "Greenhouse Gas Protocol" developed by the World Resources Institute and the World Business Council for Sustainable Development and the ISO14064-1 set by the International Standards Organization, we invested into GHG for our Chengdu office.

During the Reporting Period, the GHG emissions of our Chengdu office are summarized as follows:

GHG Emissions Performance	Unit	2022
Direct GHG emissions (Scope 1)	tonnes carbon dioxide equivalent (CO_2e)	6.71
Indirect GHG emissions (Scope 2)	tonnes CO_2e	115.12
Total GHG emissions (Scope 1 & 2)	tonnes CO_2e	121.83
GHG emissions per square meter (Scope 1 & 2)	tonnes CO_2e/ square meter	0.03

5.3 Reduce Air Pollution

The Group's air emissions mainly come from the emissions of its vehicles. Under the circumstance, we trained drivers on low-carbon driving before they take up their posts, and regularly maintain vehicles, check and inflate tires, maintain correct tire air, and choose electric or hybrid vehicles to reduce pollutant emissions.

This Year, the emissions of nitrogen oxides, sulfur oxides and particulate matter were 31.50kg, 0.04kg and 3.02kg, respectively.

5.4 Cherish Water Resources

In order to reduce the water resources consumed by corporate operations, the Group has formulated some water-saving measures, including posting water-saving warning signs in toilets, reminding employees to turn off faucets, using faucets and urinals with water-saving labels, and recycling the washing sewage for cleaning and irrigation. We regularly check the reading of water meters and whether there is any hidden water leakage. If there is any water leakage, we will immediately repair the dripping faucet. This Year, due to the increase in the number of employees in our Chengdu office, the water consumption increased slightly as compared with the previous year.

We have no difficulty in securing appropriate sources of domestic water. During the Year, the total water consumption of the Group was 2,350.37 cubic meters with an average water consumption of 0.61 cubic meter per square meter.

5.5 Waste Management

The Group is committed to reducing waste. The Group recycle the reusable stationery such as envelopes, binders and file cards, reduces the use of disposable and non-recyclable products, replaces the disposable batteries with rechargeable batteries, and puts the discarded batteries in specific recycling bins. We also cooperate with electronic companies to recycle the old computers or other electronic wastes, thus reducing the environmental pressure. This Year, due to the increase in the number of employees in our Chengdu office, the amount of waste generated increased slightly as compared with the previous year.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.6 Respond to Climate Change

The Group recognises the importance of identifying climate-related risks. We reduce our environmental impact through low-carbon operations and implementation of environmental protection measures. Through the above approaches, the Group has identified the following risks which have a significant impact on the Group's business:

Climate-related risk	Impact on the Group	Mitigation measures
Physical risk	• Extreme weather conditions, such as high temperatures, rainstorm, floods, have the potential to cause service interruptions in inclement weather and the temporary closure of the office • Extreme weather may cause safety problems for employees	• When the government departments issue relevant extreme weather, the Company will implement measures to ensure the safety of employees according to the situation, such as leaving work early or working at home; • To review the Group's environmental initiatives and monitor their effectiveness; • To provide safety training to employees to raise their safety awareness.
Transition Risk	• Changes in government policies and regulatory requirements	• Pay close attention to the changes in government policies and regulatory provisions related to climate to ensure timely response to the policy changes and updates; • Continue to actively respond to the government policies related to climate.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. INVEST IN COMMUNITY PUBLIC WELFARE

The Group always keeps in mind the communities' support for our businesses, actively participates in community activities while developing our businesses, helps people in need in the surrounding communities as much as possible with our advantages, and shoulders our social responsibilities. This Year, we participated in community public welfare activities and donated a total of RMB200,000.

At the end of February 2022, since the outbreak of the COVID-19 pandemic, two volunteers of the Group went to the front line to participate in the nucleic acid detection, measured the temperature of the detected personnel at the nucleic acid detection point and maintained the order of the team, thus contributing to the prevention and control of the COVID-19 pandemic.

Looking to the future, we will do our best to give full play to our technical and resource advantages to participate in more community public welfare activities to give back to the society.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX I: SUSTAINABILITY DATA SUMMARY

Indicator	Unit	2022
Environmental scope[1]		
Emissions		
Nitrogen oxides	kilogram	31.50
Sulfur oxides	kilogram	0.04
Particulate matter	kilogram	3.02
GHG emissions		
Direct GHG emissions (Scope 1)	tonnes CO_2e	6.71
Indirect GHG emissions (Scope 2)	tonnes CO_2e	115.12
Total GHG emissions (Scope 1 & 2)	tonnes CO_2e	121.83
GHG emissions per square meter (Scope 1 & 2)	tonnes CO_2e/square meter	0.03
Energy consumption		
Total energy consumption	kWh	220,968.49
Energy consumption intensity	kWh/square meter	57.71
Purchased electricity consumption	kWh	198,133.10
Purchased electricity consumption intensity	kWh/square meter	51.74
Gasoline consumption	litre	2,480.00
Water consumption		
Total water consumption	cubic meter	2,350.37
Water consumption intensity	cubic meter/square meter	0.61
Wastes		
Non-hazardous waste produced	kilogram	1,150.00
Non-hazardous waste produced intensity per capita	kilogram/person	4.28
Hazardous waste produced	kilogram	16.00
Hazardous waste produced intensity per capita	kilogram/person	0.06
Paper consumption		
Total paper consumption	kilogram	336.56
Paper consumption per capita	kilogram/person	1.25

[1] The environmental key performance indicators include the performance of the Chengdu office

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Unit	2022
Social scope		
Total number of employees	person	269
Total number of employees by gender		
Female	person	73
Male	person	196
Total number of employees by employment type		
Short-term contract/part-time employees	person	7
Full-time junior employees	person	260
Full-time senior management	person	2
Total number of employees by age group		
Below 30	person	140
30-50	person	127
Over 50	person	2
Total number of employees by geographical region		
Southern China	person	269
Others	person	0
Employee turnover rate[2]		
Employee total turnover rate	%	37.17%
Employee turnover rate by gender		
Female	%	13.75%
Male	%	23.42%
Employee turnover rate by age group		
Below 30	%	30.11%
30-50	%	7.06%
Over 50	%	0.00%
Employee turnover rate by geographical region		
Southern China	%	36.43%
Others	%	0.00%
Work health and safety		
Number of work-related fatalities in the past three years (2020, 2021, 2022)	person	0
Percentage of work-related fatalities in the past three years (2020, 2021, 2022)	%	0
Lost days due to work-related injuries	day	0

[2] Employee turnover rate= number of employees turnover ÷ number of employees at the end of the year ×100%

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX II: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX OF THE STOCK EXCHANGE

Indicator Content			Related Section(s)
A. Environmental scope			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.	5.2 Greenhouse Gas (GHG) Management
	A1.1	The types of emissions and respective emissions information.	Appendix I: Sustainability Data Summary
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) GHG Emissions and density.	5.2 Greenhouse Gas (GHG) Management; Appendix I: Sustainability Data Summary
	A1.3	Total hazardous waste produced and density.	Appendix I: Sustainability Data Summary
	A1.4	Total non-hazardous waste produced and density.	5.5 Waste Management; Appendix I: Sustainability Data Summary
	A1.5	Description of the emissions targets and what measures have been taken to satisfy these goals.	5.1 Advocate Energy Conservation
	A1.6	Description of how hazardous and non-hazardous wastes are handled, what reduction initiatives have been taken and what measures have been taken to achieve these goals.	5.5 Waste Management

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator Content			Related Section(s)
A. Environmental scope			
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	5.1 Advocate Energy Conservation; 5.4 Cherish Water Resources
	A2.1	Direct and/or indirect energy (e.g. electricity, gas or oil) consumption by type in total and density.	5.2 Greenhouse Gas (GHG) Management; Appendix I: Sustainability Data Summary
	A2.2	Water consumption in total and density.	5.4 Cherish Water Resources; Appendix I: Sustainability Data Summary
	A2.3	Description of the goal of energy use efficiency and what measures have been taken to achieve these goals.	5.1 Advocate Energy Conservation
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, as well as the goal of energy use efficiency and what measures have been taken to achieve these goals.	5.4 Cherish Water Resources
	A2.5	Total packaging material used for finished products and, with reference to per unit produced.	Not applicable as the Company's business does not involve packaging materials
A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	5. Focus on Environmental Protection
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	5. Focus on Environmental Protection
A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	5.6 Respond to Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	5.6 Respond to Climate Change

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator Content			Related Section(s)
B. Social scope			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4. Focus on Corporate Talents
	B1.1	Total workforce by gender, employment type, age group and geographical region.	4.1 Clarify the Rights of Employees; Appendix I: Sustainability Data Summary
	B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix I: Sustainability Data Summary
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.2 Care about the Health of Employees
	B2.1	Number and rate of work-related fatalities per year during the past three years (including the reporting year)	4.2 Care about the Health of Employees; Appendix I: Sustainability Data Summary
	B2.2	Lost days due to work injury.	4.2 Care about the Health of Employees; Appendix I: Sustainability Data Summary
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.2 Care about the Health of Employees

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator Content			Related Section(s)
B. Social scope			
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.3 Develop Employees' Potential
	B3.1	The percentage of employees trained by gender and employee category (senior management and middle-level management).	In 2022, because the COVID-19 pandemic was still grim and the Group's business operation was stable without major changes, the Group did not provide training based on the idea of putting employees' health and safety first. In the future, under the premise of ensuring the health and safety of employees, we will provide employees with a variety of training that will help improve their business abilities and benefit the development of the Company.
	B3.2	The average training hours completed per employee by gender and employee category.	In 2022, because the COVID-19 pandemic was still grim and the Group's business operation was stable without major changes, the Group did not provide training based on the idea of putting employees' health and safety first. In the future, under the premise of ensuring the health and safety of employees, we will provide employees with a variety of training that will help improve their business abilities and benefit the development of the Company.

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator Content			Related Section(s)
B. Social scope			
B4: Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	4.1 Clarify the Rights of Employees
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	4.1 Clarify the Rights of Employees
	B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Clarify the Rights of Employees
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.5 Supply Chain Management
	B5.1	Number of suppliers by geographical region.	3.5 Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	3.5 Supply Chain Management
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	3.1 Guarantee Information Security; 3.2 Give Priority to Customer Services; 3.3 Perform Product Responsibility; 3.6 Respect Intellectual Property Rights
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable as the Group's business does not involve sales or delivery of products
	B6.2	Number of products and service related complaints received and how they are dealt with.	3.2 Give Priority to Customer Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	3.6 Respect Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures.	3.3 Perform Product Responsibility
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	3.1 Guarantee Information Security

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator Content			Related Section(s)
B. Social scope			
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of bribery, extortion, fraud and money laundering.	3.4 Anti-corruption Governance
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	3.4 Anti-corruption Governance
	B7.2	Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.	3.4 Anti-corruption Governance
	B7.3	Description of the anti-corruption trainings provided to the directors and employees.	3.4 Anti-corruption Governance
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6. Invest in Community Public Welfare
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	6. Invest in Community Public Welfare
	B8.2	Resources contributed to the focus area.	6. Invest in Community Public Welfare

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF 360 LUDASHI HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of 360 Ludashi Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 105 to 182, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables We identified impairment assessment of trade receivables as a key audit matter due to the significant balance of trade receivables to the consolidated statement of financial position and the involvement of subjective judgements and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period. As disclosed in notes 4 and 19 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors. Collective assessment is performed by grouping of various debtors based on the Group's internal credit ratings that have similar loss patterns after considering, ageing and past-due status, repayment history, and nature, size and industry of debtors of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables. As disclosed in notes 4 and 19 to the consolidated financial statements, the carrying amount of trade receivables of the Group amounted to RMB38,204,000, net of loss allowance of ECL amounting to RMB6,490,000 as at 31 December 2022.	Our procedures in relation to impairment assessment of trade receivables included: – Understanding key controls on how the management estimates the loss allowance for trade receivables; – Testing the accuracy of information used by management for collective assessment of ECL, including trade receivables ageing analysis as at 31 December 2022, on sample basis, by comparing individual items in the ageing analysis with the relevant sales invoices and other supporting documents; – Challenging management's basis and judgements in assessing credit losses on trade receivables as at 31 December 2022, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories on collective basis, and the basis of estimated loss rates applied in each category (with reference to historical default rates and forward-looking information); and – Testing subsequent settlements of trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of current reporting period.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mak Chi Lung.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	5	**359,102**	337,925
Costs of sales and services		**(180,965)**	(171,258)
Gross profit		**178,137**	166,667
Other income	6	**10,792**	10,927
Impairment losses under expected credit loss model, net of reversal		**(193)**	(8,728)
Other gains and losses	7	**(6,055)**	(2,892)
Selling and distribution expenses		**(24,470)**	(25,099)
Administrative expenses		**(41,355)**	(36,506)
Research and development expenses		**(44,315)**	(39,814)
Share of results of associates		**(310)**	(671)
Finance costs	8	**(128)**	(172)
Profit before taxation		**72,103**	63,712
Taxation	9	**(6,543)**	(6,048)
Profit and total comprehensive income for the year	10	**65,560**	57,664
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**60,486**	55,038
Non-controlling interests		**5,074**	2,626
		65,560	57,664
Earnings per share			
Basic (in RMB cents)	13	**22.49**	20.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current Assets			
Intangible assets	14	2,999	3,400
Property, plant and equipment	15	8,105	9,188
Interests in associates	16	1,032	8,940
Financial assets at fair value through profit or loss ("**FVTPL**")	17	4,600	1,600
Deferred tax assets	18	13,309	8,416
Prepayments	20	16,623	–
		46,668	31,544
Current Assets			
Trade receivables	19	38,204	49,869
Other receivables, deposits and prepayments	20	22,683	44,143
Inventories		166	480
Tax recoverable		582	225
Financial assets at FVTPL	17	20,000	80,353
Restricted bank deposits	21	–	1,100
Cash and cash equivalents	21	532,902	384,975
		614,537	561,145
Current Liabilities			
Trade and other payables	22	50,371	40,104
Contract liabilities	23	206	553
Lease liabilities	25	2,144	1,929
Income tax payable		6,473	3,893
		59,194	46,479
Net Current Assets		555,343	514,666

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	31/12/2022 RMB'000	31/12/2021 RMB'000
Total Assets less Current Liabilities		602,011	546,210
Capital and Reserves			
Share capital	24	2,425	2,425
Reserves		596,143	537,522
Equity attributable to owners of the Company		598,568	539,947
Non-controlling interests		2,563	5,012
		601,131	544,959
Non-current Liability			
Lease liabilities	25	880	1,251
		602,011	546,210

The consolidated financial statements on pages 105 to 182 were approved and authorised for issue by the board of directors on 31 March 2023:

Tian Ye
Director

He Shiwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2022

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000 (Note (i))	Statutory surplus reserve RMB'000 (Note (ii))	Other reserve RMB'000	Accumulated profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000 (Note (iii))	Total RMB'000
At 1 January 2021	2,425	159,482	22,819	(9)	300,192	484,909	7,237	492,146
Profit and total comprehensive income for the year	–	–	–	–	55,038	55,038	2,626	57,664
Arising from acquisition of subsidiaries	–	–	–	–	–	–	(55)	(55)
Dividends to non-controlling interests *(Note (iv))*	–	–	–	–	–	–	(4,796)	(4,796)
Transfer	–	–	2,971	–	(2,971)	–	–	–
At 31 December 2021	2,425	159,482	25,790	(9)	352,259	539,947	5,012	544,959
Profit and total comprehensive income for the year	–	–	–	–	60,486	60,486	5,074	65,560
Purchase of non-controlling interests *(Note (iii))*	–	–	–	–	(1,865)	(1,865)	(319)	(2,184)
Dividends to non-controlling interests *(Note (iv))*	–	–	–	–	–	–	(7,204)	(7,204)
Transfer	–	–	930	–	(930)	–	–	–
At 31 December 2022	2,425	159,482	26,720	(9)	409,950	598,568	2,563	601,131

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2022

Notes:

(i) The share premium includes the capital reserve of RMB37,920,000 before the completion of the reorganisation of the Group in 2018.

(ii) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "**PRC**"), the PRC subsidiaries are required to set aside 10% of their profit after tax as per statutory financial statements determined under the PRC laws and regulations for the statutory surplus reserve fund until the reserve reach 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries. The statutory surplus reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the respective subsidiaries.

(iii) During January 2022, Chengdu Qilu Technology Co., Ltd.* ("**Chengdu Qilu**") purchased 1.2% equity interests of Tianjin Liu Liuyou Technology Co., Ltd.* ("**Liu Liuyou Technology**") from non-controlling interests shareholder for a consideration of RMB2,184,000. As a result, the Group's equity interests in Liu Liuyou Technology increase from 88% to 89.2%. The transaction was accounted for as an equity transaction with non-controlling interests shareholder of an existing subsidiary, and the differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid is recognised directly in equity attributed to owners of the Group.

At 31 December 2022, the non-controlling interests comprise of those equity interests in Liu Liuyou Technology and Chengdu Xiaolu Chexun Technology Co., Ltd.* held by parties other than the Company.

(iv) During January 2022, Liu Liuyou Technology declared dividends of an aggregate amount of RMB21,952,000 to its shareholders, of which approximately RMB19,318,000 and RMB2,634,000 were distributed to Chengdu Qilu and the non-controlling shareholder, respectively.

During December 2022, Liu Liuyou Technology declared dividends of an aggregate amount of RMB42,313,000 to its shareholders, of which approximately RMB37,743,000 and RMB4,570,000 were distributed to Chengdu Qilu and the non-controlling shareholder, respectively.

* English name for reference only.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Operating activities		
Profit before taxation	72,103	63,712
Adjustments for:		
Depreciation of property, plant and equipment	5,361	4,879
Share of results of associates	310	671
Amortisation of intangible assets	401	1,402
Amortisation of exclusive rights to operate licensed online games	–	6,182
Finance costs	128	172
Interest income	(8,397)	(5,713)
Impairment loss, net of reversals		
– items subject to expected credit losses	193	8,728
– investment in associates	7,598	–
Reversal of write-down of inventories, net	(578)	–
Derecognition of lease liabilities, upon rental concessions	(188)	–
Gain on disposal of property, plant and equipment	(223)	–
Gain on early termination of leases	–	(238)
Gain on changes in fair value on financial assets at FVTPL	–	(353)
Loss on sale of financial assets at FVTPL	–	2,642
Gain on deemed disposals of an associate	–	(711)
Effective of exchange (gains) losses	(10,729)	1,874
Operating cash flow before movement in working capital	65,979	83,247
Movements in working capital:		
Decrease (increase) in trade receivables	11,889	(249)
Decrease (increase) in other receivables, deposits and prepayments	11,087	(202)
Decrease (increase) in inventories	892	(304)
Decrease (increase) in restricted bank deposits	1,100	(1,100)
Increase in trade and other payables	5,530	10,154
(Decrease) increase in contract liabilities	(347)	452
Cash generated from operating activities	96,130	91,998
Interest received	7,234	2,777
Income tax paid	(9,213)	(2,117)
Net cash from operating activities	94,151	92,658

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Investing activities		
Proceeds on disposal of interest in subsidiaries	–	1,500
Proceeds on disposal of property, plant and equipment	1,450	3
Purchase of financial assets at FVTPL	(223,000)	(527,000)
Withdrawal of financial assets at FVTPL	280,353	447,000
Proceeds on sale of financial asset at FVTPL	–	22,986
Purchase of property, plant and equipment	(2,991)	(3,361)
Purchase of intangible assets	–	(1,932)
Payment for rental deposits	(42)	(247)
Refund of rental deposit	51	–
Prepayment for acquisition of an associate	(4,750)	–
Loan to an associate	–	(8,000)
Repayment from an associate	9,500	–
Interest received from financial assets at FVTPL	1,771	2,318
Prepayment for game development and license	(11,873)	(948)
Net cash from (used in) investing activities	50,469	(67,681)
Financing activities		
Dividends paid to a non-controlling interests shareholder	(2,634)	(4,796)
Interest paid	(128)	(172)
Purchase of non-controlling interests	(2,184)	–
Repayments of lease liabilities	(2,316)	(2,440)
Net cash used in financing activities	(7,262)	(7,408)
Net increase in cash and cash equivalents	137,358	17,569
Cash and cash equivalents at beginning of the year	384,975	369,233
Effect of foreign exchange rate changes	10,569	(1,827)
Cash and cash equivalents at end of the year, represented by bank balances and cash	532,902	384,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

1. GENERAL INFORMATION, STRUCTURED CONTRACTS AND BASIS OF PREPARATION

360 Ludashi Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 February 2018.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The subsidiaries of the Company, set out in Note 31, are mainly engaged in online advertising services, online game platforms and operation of exclusive licensed online game business (collectively, the "**online game business**") and certified pre-owned and factory other electronic devices sales as well as smart accessories sales in the PRC.

The Company and its subsidiaries comprising the Group are under the control of 360 Technology Group Co., Ltd. ("**360 Technology**") and Mr. Tian Ye (the "**Controlling Shareholders**").

Due to the restrictions imposed by relevant laws and regulatory regime of PRC on foreign ownership of companies engaged in the business carried out by Chengdu Qilu and its subsidiaries (the "**Structured Entities**"), the Company has entered into, via Chengdu Anyixun Technology Co., Ltd.* ("**Anyixun**"), various agreements with Chengdu Qilu (the "**Contractual Arrangements**"), which, effective from 31 August 2018, enable Anyixun and the Company to:

- exercise effective financial and operational control over the Structured Entities;
- exercise equity holders' voting rights of the Structured Entities;
- receive substantially all of the economic interest returns generated by the Structured Entities in consideration for the business support, technical and management consultancy services provided by Anyixun;
- obtain an irrevocable and exclusive right to purchase all or part of the interests in Chengdu Qilu and/or any assets that are held by the Structured Entities at the lowest purchase price permitted under PRC laws and regulations and exercise such right from time to time in the event that PRC laws and regulations permitted;

* English name for reference only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

1. GENERAL INFORMATION, STRUCTURED CONTRACTS AND BASIS OF PREPARATION (CONTINUED)

- prevent the Structured Entities to sell, assign, transfer, or otherwise dispose of or create encumbrance over their interest in the equity and/or the assets of the Structured Entities without prior consent of Anyixun; and

- prevent the Structured Entities to make any distributions to their equity holders without prior consent of Anyixun.

The Company does not have any equity interest in the Structured Entities. However, the Structured Contracts enable the Company to have the power over the Structured Entities, rights to variable returns from its involvement with the Structured Entities and the ability to affect those returns through its power over the Structured Entities. Consequently, the Company regards the Structured Entities as indirect subsidiaries. The Group has consolidated the assets and liabilities, income and expenses of the Structured Entities in the consolidated financial statements during both years.

The following financial statements balances and amounts of the Structured Entities were included in the consolidated financial statements:

	2022 ***RMB'000***	2021 *RMB'000*
Revenue	**181,484**	125,712
Profit before taxation	**59,496**	25,031

	31/12/2022 ***RMB'000***	31/12/2021 *RMB'000*
Non-current assets	**8,766**	4,876
Current assets	**279,305**	238,083
Current liabilities	**28,100**	23,763
Non-current liabilities	**80**	327

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendment to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 retrospectively for the first time in the current year. The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 Leases ("**HKFRS 16**") by one year so that the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The application has had no impact to the opening retained profits at 1 January 2022. During the year, the lessor of the certain office premise agreed to waive portion of lease payments. The Group has derecognised the part of lease liabilities that have been extinguished using the discount rates originally applied to these leases respectively, resulting in a decrease in lease liabilities of RMB188,000, which have been recognised as variable lease payments in profit or loss during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future, and the amendments to HKFRSs that are relevant to the Group are disclosed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 *Definition of Accounting Estimates*

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB3,297,000 and RMB3,024,000 respectively.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets* ("**HKAS 36**").

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when a company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Basis of consolidation** (continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Interests in associates** (continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the interest in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers

The Group recognises 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 recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Revenue from contracts with customers** (continued)*

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 recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of services.

Principal versus agent

When another party is involved in providing services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the services itself (i.e. the Group is a principal) or to arrange for those services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the service before that service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the service by another party. In this case, the Group does not control the service provided by another party before that service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the services to be provided by the other party.

Leases

Definition of a lease

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

For contracts entered into on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Leases** (continued)*

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets within "property, plant and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Leases** (continued)*

The Group as a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Leases** (continued)*

The Group as a lessee (continued)

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic ("**COVID-19**"), the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that receivable as compensation for expenses of losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Taxation** (continued)*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of property, plant and equipment (including right-of-use assets) and intangible assets

At the end of reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units ("**CGUs**") for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Impairment of property, plant and equipment (including right-of-use assets) and intangible assets** (continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue with Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets
Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial assets the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combination* applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)
A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or at fair value through other comprehensive income ("**FVTOCI**") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade receivables, other receivables, restricted bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(i) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for a security because of financial difficulties; or

(f) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Repayment history; and
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost
Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, 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 ongoing basis. Revisions to accounting estimates are recognised 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.

Critical judgements in applying accounting policies

The following are the critical judgement that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Contractual arrangements

The Group conducts a substantial portion of the business through the Structured Entities in the PRC due to regulatory restrictions on internet value-added services in PRC. The Group does not have any equity interests in the Structured Entities. The management of the Group assessed whether or not the Group has control over the Structured Entities based on whether the Group has the power over the Structured Entities, has rights to variable returns from its involvement with the Structured Entities and has the ability to affect those returns through its power over the Structured Entities. After assessment, the management of the Group concluded that the Group has control over the Structured Entities as a result of the contractual arrangements and other measures and accordingly, the Group has consolidated the financial information of the Structured Entities in the consolidated financial statements during the both years.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Structured Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured Entities. The management of the Group, based on the advice of its legal counsel, considers that the Contractual Arrangements among Anyixun, the Structured Entities and their respective legal equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months from the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables

The management of the Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors. Collective assessment is performed by grouping of various debtors based on the Group's internal credit ratings that have similar loss patterns after considering, ageing and past-due status, repayment history, and nature, size and industry of debtors of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables.

The amount of lifetime ECL is sensitive to changes in estimates. As at 31 December 2022, the carrying amount of trade receivables measured at amortised cost amounted to RMB38,204,000 (net of loss allowance of RMB6,490,000) (2021: RMB49,869,000 (net of loss allowance of RMB6,714,000).

Estimated impairment of associates

As at 31 December 2022, in view of impairment indicators of the continuous unsatisfactory operation results, the Group performed impairment assessment on associates. Determining whether impairment losses should be recognised requires an estimation of the recoverable amount of the relevant associates which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associates and the proceeds from the ultimate disposal of the investment taking into account factors, including discount rate, dividend payout rate, etc.. In cases where the actual cash flows are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation or discount rate, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

As at 31 December 2022, the carrying amount of the associates amounted to RMB1,032,000 (2021: RMB8,940,000), after taking into account the impairment of RMB7,598,000 recognised in profit or loss during the year ended 31 December 2022 (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of online advertising services, online game business, and certified pre-owned and factory other electronic devices sales as well as smart accessories sales in the PRC.

Revenue represents services and sales income comprising the business mentioned above.

(i) Disaggregation of revenue from contracts with customers

Segment information

The Group's chief operating decision maker has been identified as the chief executive officer who reviews revenue analysis by business lines when making decisions about allocating resources and assessing performance of the Group.

As there is no other discrete financial information available for assessment of performance of different business lines, only entity-wide disclosures, major customers and geographic information are presented.

The revenues attributable to the Group's business lines for the years ended 31 December 2022 and 2021 are as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Online traffic monetization		
– Online advertising services	**181,664**	203,858
– Online game platforms	**173,432**	113,698
– Operation of exclusive licensed online game business	**3,834**	19,741
Electronic devices sales		
– Smart accessories sales	**172**	459
– Certified pre-owned and factory other electronic devices sales	**–**	169
Total	**359,102**	337,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(i) Disaggregation of revenue from contracts with customers (continued)

Geographical information

During the years ended 31 December 2022 and 2021, the Group principally operated in the PRC and its revenue was generated in the PRC and overseas based on the location of the customers' operations. All of its non-current assets were located in the PRC.

	2022 RMB'000	2021 RMB'000
PRC	327,713	293,163
Overseas	31,389	44,762
Total	359,102	337,925

Timing of revenue recognition

	2022 RMB'000	2021 RMB'000
A point in time	177,516	201,933
Over time	181,586	135,992
Total	359,102	337,925

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	Business lines	2022 RMB'000	2021 RMB'000
Customer A*	Online game platforms	105,469	#
Customer B**	Online advertising services	56,079	34,156
Customer C***	Online advertising services & online game business	36,191	51,689

* The customer is a related party of the Group.

** The customer is not a related party of the Group. Revenue from customer B includes the revenue from customer B and its subsidiaries within the same group.

*** The customer is a related party of the Group. Revenue from customer C includes the revenue from customer C and its subsidiaries within the same group.

Revenue did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(ii) Performance obligations for contracts with customers

The Group recognise revenue from the following major sources:

(a) *Service income*

Service income includes online traffic monetization business. Such revenues are recognised over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

Online traffic monetization business – online advertising service

Revenue from provision of online advertising service mainly includes provision of homepage directing service, mini-page service and banner advertising service. For provision of homepage directing service and mini-page service, the Group considers the performance obligation is satisfied at a point in time at which the service is provided. For certain banner advertising service, revenue is recognised over time by reference to time passage of service provided, when the customers simultaneously receive and consume the benefits from the Group's performance. The progress towards complete satisfaction of a performance obligation is measured based on output method.

Online traffic monetization business – online game platforms

The Group opens its online game platforms to third-party game developers under certain cooperation agreements, of which the Group receives the payments from ultimate game players and pays the third-party game/application developers a predetermined percentage of the fees paid by and collected from ultimate game players of the Group's online game platforms for the virtual products/items purchased. Revenue from online game platforms is recognised on net basis as the Group is acting as an agent in the transaction. The Group accounts the grant of right to access the online game platforms as a performance obligation satisfied over time.

Online traffic monetization business – Operation of exclusive licensed online game business

Revenue from operation of exclusive licensed online game business includes providing customer service related to game experience. For the revenue from such games, the nature of the Group's performance obligation is considered to be taking primary responsibilities of game operation, including determining distribution channels and payment vendors, providing customer services, hosting game servers, if needed, and controlling games and services specifications and pricing. Accordingly, the Group considered itself as a principal. Revenues from exclusive licensed online game is recognised ratably over the period that the paying players are expected to benefit from an enhanced in-game experience associated with each purchase. At each reporting date, the unamortised portion of income received in respect of exclusive licensed online game operation is recognised as contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(ii) Performance obligations for contracts with customers (continued)

(b) Sales income

Sales income includes the sales of other electronic devices and smart accessories. Such revenues are recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location.

6. OTHER INCOME

	2022 *RMB'000*	2021 *RMB'000*
Government grants (Note)	**2,395**	5,214
Interest income		
– bank deposits	**6,626**	3,395
– financial assets at FVTPL	**1,771**	2,318
	10,792	10,927

Note: The Government grants mainly represented the tax refund and high-tech subsidies received from local government authorities.

7. OTHER GAINS AND LOSSES

	2022 *RMB'000*	2021 *RMB'000*
Impairment loss recognised in respect of prepayments	**(8,771)**	–
Impairment loss recognised in respect of interest in associates	**(7,598)**	–
Gain on deemed disposal of interest in an associate	**–**	711
Loss arising from sale of financial asset at FVTPL	**–**	(2,642)
Gain from changes in fair value of financial assets at FVTPL	**–**	353
Gain on disposal of property, plant and equipment	**223**	–
Gain on early termination of leases	**–**	238
Net foreign exchange gains (losses)	**10,729**	(1,874)
Others	**(638)**	322
	(6,055)	(2,892)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

8. FINANCE COSTS

	2022	2021
	RMB'000	*RMB'000*
Interest on lease liabilities	**128**	172

9. TAXATION

	2022	2021
	RMB'000	*RMB'000*
Tax expense comprises:		
Current tax		
– PRC Enterprise Income Tax ("**EIT**")	**9,723**	4,463
– Hong Kong	**1,713**	2,466
Deferred tax (Note 18)	**(4,893)**	(881)
Total	**6,543**	6,048

(i) Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain Group's subsidiaries operating in the PRC are eligible for certain tax holidays and concessions, as follows:

Pursuant to the National Leading Group Office of Hi-Tech Enterprise Identification and Management, Liu Liuyou Technology, Zhongzhixing Technology Co., Ltd.* ("**Zhongzhixing**") and Anyixun have been satisfied the conditions for Hi-Tech enterprise's tax preference. As such, Liu Liuyou Technology, Zhongzhixing and Anyixun were subject to PRC EIT at a rate of 15% on its taxable income for three years with effect from 2020. Due to the renewal of Hi-Tech Enterprise certificate, Liu Liuyou and Anyixun are entitled to enjoy three more years of 15% tax rate with effect from 2023.

* English name for reference only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. TAXATION (CONTINUED)

(ii) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the years ended 31 December 2022 and 2021.

(iii) The Company is tax exempted under the laws of the Cayman Islands and its subsidiaries incorporated in the BVI are also tax exempted under the laws of the BVI from a BVI tax perspective.

(iv) According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2018 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses so incurred in a year as tax deductible expenses in determining its tax assessable profits for that year. During the year ended 31 December 2022, such enterprises are entitled to claim a pre-tax deduction of 200% of their research and development expenses for the period from 1 October 2022 to 31 December 2022. In addition, Liu Liuyou Technology and Zhongzhixing have been satisfied the conditions for Technology-based Small and Medium Enterprises. As such, Liu Liuyou Technology and Zhongzhixing are entitled to claim 200% of the research and development expenses so incurred during the year of 2022 as tax deductible expenses in determining its tax assessable profits for that year.

The taxation for the years ended 31 December 2022 and 2021 can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 *RMB'000*	2021 *RMB'000*
Profit before taxation	**72,103**	63,712
Tax at applicable tax rate of 25%	**18,026**	15,928
Tax effect of share of results of associates	**78**	167
Tax effect of expenses not deductible for income tax purpose	**2,540**	3,535
Utilisation of tax losses previously not recognised	**(106)**	(1,126)
Tax effect of tax losses not recognised	**1,990**	167
Tax effect of additional deduction of certain research and development expenses	**(9,758)**	(7,821)
Income tax at concessionary rate	**(4,207)**	(3,063)
Effect of different tax rates of a subsidiary operating in other jurisdiction	**(2,020)**	(1,739)
Taxation for the year	**6,543**	6,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2022 *RMB'000*	2021 *RMB'000*
Directors' and chief executive's remuneration (Note 11)	**8,627**	6,488
Other staff costs		
– Salaries and other benefits	**63,539**	62,441
– Retirement benefit scheme contributions	**4,678**	4,308
Total staff costs	**76,844**	73,237
Cost of inventories sold	**118**	440
Advertising and promoting fees (included in "**cost of sales and services**")	**171,634**	154,367
Expenses relating to short-term leases	**47**	300
Depreciation of property, plant and equipment (included in "**administrative expenses, selling and distribution expenses and research and development expenses**")	**5,361**	4,879
Amortisation of intangible assets (included in "**costs of sales and services, administrative expenses and research and development expenses**")	**401**	1,402
Amortisation of exclusive rights to operate licensed online games (included in "**costs of sales and services**")	**–**	6,182
Covid-19-Related Rent Concessions	**188**	–
Auditor's remuneration	**2,210**	2,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

Directors' and chief executive's emoluments

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

The executive directors' emoluments shown below were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown below were for their services as directors of the Company.

Year ended 31 December 2022

	Salaries and allowances *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive director and chief executive officer			
Mr. Tian Ye	4,701	37	4,738
Executive director			
Mr. He Shiwei	3,492	37	3,529
Non-executive directors			
Mr. Sun Chunfeng	–	–	–
Mr. Liu Wei	–	–	–
Mr. Zhao Dan	–	–	–
Independent Non-executive directors			
Mr. Li Yang	120	–	120
Mr. Wang Xinyu	120	–	120
Mr. Zhang Ziyu	120	–	120
	8,553	74	8,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (CONTINUED)

Directors' and chief executive's emoluments (continued)

Year ended 31 December 2021

	Salaries and allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive director and chief executive officer			
Mr. Tian Ye	3,328	36	3,364
Executive director			
Mr. He Shiwei	2,662	36	2,698
Non-executive directors			
Mr. Sun Chunfeng	–	–	–
Mr. Liu Wei	–	–	–
Mr. Zhao Dan	–	–	–
Independent Non-executive directors			
Mr. Li Yang	122	–	122
Mr. Wang Xinyu	122	–	122
Mr. Zhang Ziyu	122	–	122
Mr. Zhu Jinglei (Note)	60	–	60
	6,416	72	6,488

Note: Mr. Zhu Jinglei was resigned as an independent non-executive director of the Company on 25 June 2021.

There were no arrangement under which a director or the chief executive of the Company waived or agreed to waive any emolument during the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (CONTINUED)

Employees' remuneration

The five highest paid individuals of the Group included two directors (2021: two), details of whose remuneration are set out in the disclosures above. Details of the remuneration for the year ended 31 December 2022 of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 *RMB'000*	2021 *RMB'000*
Salaries and allowances	**6,084**	4,869
Retirement benefit scheme contributions	**128**	134
Total	**6,212**	5,003

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
Remuneration bands		
Nil to Hong Kong dollar ("**HK$**") 1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	–
	3	3

During the years ended 31 December 2022 and 2021, no remuneration was paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**60,486**	55,038

Shares	**Number of ordinary shares** **31/12/2022** ***'000***	 31/12/2021 *'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**269,000**	269,000

No diluted earnings per share for both 2022 and 2021 were presented as there were no potential ordinary shares in issue for both 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

14. INTANGIBLE ASSETS

	Software RMB'000	Domain name RMB'000	Total RMB'000
COST			
At 1 January 2021	9,087	42	9,129
Additions	1,932	–	1,932
At 31 December 2021 and 2022	**11,019**	**42**	**11,061**
AMORTISATION			
At 1 January 2021	(6,223)	(36)	(6,259)
Charge for the year	(1,396)	(6)	(1,402)
At 31 December 2021	(7,619)	(42)	(7,661)
Charge for the year	(401)	–	(401)
At 31 December 2022	**(8,020)**	**(42)**	**(8,062)**
CARRYING VALUES			
At 31 December 2022	**2,999**	**–**	**2,999**
At 31 December 2021	3,400	–	3,400

The intangible assets above are amortised on a straight-line method at the following useful lives:

Software	3–10 years
Domain name	7 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Leasehold improvements RMB'000	Right-of-use assets - office premises RMB'000	Total RMB'000
COST						
At 1 January 2021	832	1721	2,915	5,236	9,626	20,330
Additions	283	–	913	2,165	–	3,361
Inception of leases	–	–	–	–	1,613*	1,613
Expiration of leases	–	–	–	–	(2,231)	(2,231)
Disposals	–	–	(5)	–	–	(5)
Termination of leases	–	–	–	–	(3,597)**	(3,597)
At 31 December 2021	1,115	1,721	3,823	7,401	5,411	19,471
Additions	127	2,028	512	324	–	2,991
Inception of leases	–	–	–	–	1,927*	1,927
Modification of leases	–	–	–	–	421***	421
Expiration of leases	–	–	–	–	(1,558)	(1,558)
Disposals	–	(1,721)	(6)	–	–	(1,727)
At 31 December 2022	**1,242**	**2,028**	**4,329**	**7,725**	**6,201**	**21,525**
DEPRECIATION						
At 1 January 2021	(489)	(233)	(1,339)	(3,378)	(3,637)	(9,076)
Provided for the year	(105)	(327)	(837)	(1,414)	(2,196)	(4,879)
Expiration of leases	–	–	–	–	2,231	2,231
Eliminated on disposals	–	–	2	–	–	2
Termination of leases	–	–	–	–	1,439**	1,439
At 31 December 2021	(594)	(560)	(2,174)	(4,792)	(2,163)	(10,283)
Provided for the year	(165)	(385)	(840)	(1,672)	(2,299)	(5,361)
Expiration of leases	–	–	–	–	1,558	1,558
Eliminated on disposals	–	661	5	–	–	666
At 31 December 2022	**(759)**	**(284)**	**(3,009)**	**(6,464)**	**(2,904)**	**(13,420)**
CARRYING VALUES						
At 31 December 2022	**483**	**1,744**	**1,320**	**1,261**	**3,297**	**8,105**
At 31 December 2021	521	1,161	1,649	2,609	3,248	9,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

* Right-of-use assets for office premises was arisen due to initial recognition of lease liabilities at the commencement date of the lease amounted to RMB1,927,000 (2021: RMB1,613,000).

** During the year ended 31 December 2021, certain leases related to office premises were early terminated. The carrying values of the right-of-use assets associated with these leases and their corresponding lease liabilities at the date of derecognition were RMB2,158,000 and RMB2,396,000, and that resulted a gain on early termination of leases amounted to RMB238,000 (Note 7).

*** During the year ended 31 December 2022, certain leases related to office premises were modified as a result of adjustments to the rental prices on the basis that the original scope of the leases remained unchanged. The carrying values of the right-of-use assets associated with these leases and their corresponding lease liabilities at the date of modifications increased by RMB421,000 as a result of the lease modifications.

The above items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives after taking into account the residual values:

Furniture and fixtures	5 years
Motor vehicles	5 years
Electronic equipment	3 years
Leasehold improvements	Shorter of 2 to 4 years and the remaining terms of the lease
Right-of-use assets – office premises	Shorter of 2 to 4 years and the remaining terms of the lease

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

During the year ended 31 December 2022, the lessor of the certain office premise provided rent concessions that occurred as a direct consequence of the Covid-19 pandemic to the Group through reducing the rent for seven months.

The rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in HKFRS 16.46B and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the year ended 31 December 2022, the effects on changes in lease payments due to forgiveness or waiver by the lessor for the relevant leases of RMB188,000 (2021: Nil) were recognised as negative variable lease payments.

The total cash outflows for leases including the payments of lease liabilities for the year were RMB2,491,000 (2021: RMB2,912,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

16. INTERESTS IN ASSOCIATES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Cost of investment in associates	**17,700**	17,700
Share of post-acquisition losses and other comprehensive expenses	**(2,424)**	(2,114)
Impairment loss recognised	**(14,244)**	(6,646)
	1,032	8,940

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of entities	Country of incorporation /registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity	Investment costs	
			2022	2021	2022	2021		2022 RMB'000	2021 RMB'000
Beijing Sihai Chuangwei Technology Co., Ltd.* ("**Sihai Chuangwei**") (Note (i))	PRC	PRC	**20%**	20%	**20%**	20%	Online advertising	**8,800**	8,800
Shanghai Kaizhan Information Technology Co., Ltd.* ("**Shanghai Kaizhan**") (Note (ii))	PRC	PRC	**8%**	8%	**33%**	33%	Live streaming service	**8,000**	8,000
Tianjin Youbenzhiquan Technology Co., Ltd.* ("**Tianjin Youbenzhiquan**") (Note (iii))	PRC	PRC	**40%**	40%	**40%**	40%	Technical service	**500**	500
Tianjin Qiyu Information Technology Co., Ltd.* ("**Tianjin Qiyu**") (Note (iii))	PRC	PRC	**20%**	20%	**20%**	20%	Online game business	**400**	400
								17,700	17,700

* English name for reference only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

16. INTERESTS IN ASSOCIATES (CONTINUED)

Notes:

(i) The Group acquired 20% interest in Sihai Chuangwei on 23 December 2019 for a consideration of RMB8,800,000 and is able to exercise significant influence over Sihai Chuangwei because the Group has the power to appoint one out of the three directors of that company under the articles of association of that company.

(ii) During January 2020, the Group acquired 8% interest in Shanghai Kaizhan through capital injection of RMB8,000,000 and has the right to appoint one of the three directors of Shanghai Kaizhan. After the investment, the Group and those two independent third parties held the equity interest of Shanghai Kaizhan of 8%, 9.2% and 82.8%, respectively. According to the articles of association, the board of directors of Shanghai Kaizhan is responsible to approve the decision to direct the operation and financing activities of Shanghai Kaizhan and the directors of the Company consider that the Group has significant influence over Shanghai Kaizhan and it is therefore classified as an associate of the Group.

(iii) The Group has 20% and 40% ownership interests and voting rights in Tianjin Qiyu and Tianjin Youbenzhiquan in 2019 and 2020 respectively. According to the articles of associations, the voting power is exercised with reference to respective percentage of registered share capital. By considering that the Group has no sufficiently dominant voting rights to direct the relevant activities of these companies unilaterally, the directors of the Company conclude that the Group only has significant influence over these companies and therefore they are classified as associates of the Group.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All of the associates are accounted for using the equity method in these consolidated financial statements.

Sihai Chuangwei

	31/12/2022 ***RMB'000***	31/12/2021 *RMB'000*
Current assets	**395**	6,825
Non-current assets	**–**	1,480
Non-current liabilities	**–**	370

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

16. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associates (continued)

Sihai Chuangwei *(continued)*

	2022 *RMB'000*	2021 *RMB'000*
Revenue	**917**	–
Loss and total comprehensive expense for the year	**(7,540)**	(875)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2022 *RMB'000*	31/12/2021 *RMB'000*
Net assets of Sihai Chuangwei	**395**	7,935
Proportion of the Group's ownership interest in Sihai Chuangwei	**20%**	20%
The Group's share of net assets of Sihai Chuangwei	**79**	1,587
Goodwill	**6,646**	6,646
Impairment recognised	**(7,474)**	(6,646)
The unrecognised share of loss of an associate for the year	**749**	–
Carrying amount of the Group's interest in Sihai Chuangwei	**–**	1,587

Note: During the year ended 31 December 2022, in view of the impairment indicator of the continuous unsatisfactory operation results, the management of the Group performed impairment assessment on Sihai Chuangwei by comparing its recoverable amount with its carrying amount. The recoverable amount of the investment in Sihai Chuangwei was determined based on a value in use calculation. Based on the result of the review, the recoverable amount of the Group's interest in Sihai Chuangwei is estimated to be lower than its carrying amount and, accordingly, an impairment loss of approximately RMB828,000 is recognised in profit or loss during the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associates (continued)

Shanghai Kaizhan

	31/12/2022 RMB'000	31/12/2021 RMB'000
Current assets	9,543	13,156
Non-current assets	861	905
Current liabilities	10,432	13,507
Non-current liabilities	–	472

	2022 RMB'000	2021 RMB'000
Revenue	20,395	67,177
Loss and total comprehensive expense for the year	(110)	(8,574)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Net assets of Shanghai Kaizhan	(28)	82
Proportion of the Group's ownership interest in Shanghai Kaizhan	8%	8%
The Group's share of net (liabilities) assets of Shanghai Kaizhan	(2)	7
Goodwill	6,279	6,279
Impairment recognised	(6,523)	–
The unrecognised share of loss of an associate for the year	246	–
Carrying amount of the Group's interest in Shanghai Kaizhan	–	6,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

16. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associates (continued)

Shanghai Kaizhan *(continued)*

Note: During the year ended 31 December 2022, in view of the impairment indicator of the continuous unsatisfactory operation results, the management of the Group performed impairment assessment on Shanghai Kaizhan by comparing its recoverable amount with its carrying amount. The recoverable amount of the investment in Shanghai Kaizhan was determined based on a value in use calculation. Based on the result of the review, the recoverable amount of the Group's interest in Shanghai Kaizhan is estimated to be lower than its carrying amount and, accordingly, an impairment loss of approximately RMB6,523,000 is recognised in profit or loss during the year ended 31 December 2022.

Aggregate information of associates that are not individually material

	31/12/2022 ***RMB'000***	31/12/2021 *RMB'000*
The Group's share of loss and total comprehensive expense for the year	**212**	621
Impairment recognised	**(247)**	–
Aggregate carrying amount of the Group's interests in these associates	**1,032**	1,067

Where the Group has unrecognised share of losses of associates

	31/12/2022 ***RMB'000***	31/12/2021 *RMB'000*
Cumulative unrecognised share of losses of associates	**995**	–

Note: The unrecognised losses occurred after the Group recorded the impairment of the interests in associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated at FVTPL:

	31/12/2022 *RMB'000*	31/12/2021 *RMB'000*
Unlisted equity investments:		
– Chengdu Jingtanhao Technology Co., Ltd.*	**1,600**	1,600
– Sichuan Be-Reborn Network Co. Ltd.* ("**Sichuan Be-Reborn**") (Note(i))	**3,000**	–
	4,600	1,600
Structured bank deposits (Note (ii))	**20,000**	80,353
	24,600	81,953
Analysed for reporting purposes as:		
– Current assets	**20,000**	80,353
– Non-current assets	**4,600**	1,600
	24,600	81,953

* English name for reference only.

Notes:

(i) During March 2022, Chengdu Qilu acquired 5% equity interests of Sichuan Be-Reborn. Sichuan Be-Reborn is mainly involved in online game development. In May 2022, a third party acquired 10% equity interests of Sichuan Be-Reborn, upon completion of the acquisition, Chengdu Qilu's equity interests of Sichuan Be-Reborn was diluted to 4.62%. And the investment was classified as financial assets at FVTPL on initial recognition.

(ii) During the year ended 31 December 2022, the Group entered into structured bank deposits agreements with a bank in the PRC. The banks guaranteed 100% of the invested principal amount and floating interest rate of 1.59% to 3.20% (2021: 1.15% to 3.30%) per annum with maturity periods ranging from 84 days to 92 days (2021: 30 days to 92 days) as specified in the agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

18. DEFERRED TAX ASSETS

The following are the major deferred taxation recognised and movement thereon during the current and prior years:

	Allowance for credit losses RMB'000	Provision for inventories RMB'000	Impairment on prepayment RMB'000	Impairment on interests in an associate RMB'000	Unrealised intragroup profit RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2021	676	280	–	997	247	5,335	7,535
Credited (charged) to profit or loss	1,577	(180)	–	–	(247)	(269)	881
At 31 December 2021	2,253	100	–	997	–	5,066	8,416
Credited (charged) to profit or loss	54	(87)	1,316	–	–	3,610	4,893
At 31 December 2022	**2,307**	**13**	**1,316**	**997**	**–**	**8,676**	**13,309**

As at 31 December 2022, the Group has unused tax losses of RMB57,895,000 (2021: RMB24,591,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB46,742,000 (2021: RMB20,975,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB11,153,000 (2021: RMB3,616,000) due to the unpredictability of future profit streams which will expire from 2023 to 2032 (2021: from 2022 to 2031) and the related tax policies.

As at 31 December 2022, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB417,574,000 (2021: RMB370,148,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

19. TRADE RECEIVABLES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Trade receivables		
– related parties	**4,205**	6,233
– third parties	**40,489**	50,350
Less: allowance for credit losses	**(6,490)**	(6,714)
	38,204	49,869

Details of amounts due from related parties included in trade receivables are as follows:

Related parties	**Relationship**	31/12/2022 RMB'000	31/12/2021 RMB'000
Beijing Qihu Technology Co., Ltd. ("**Beijing Qihu**")	Shareholder of the Company	**–**	5,630
360 Technology	Shareholder of Beijing Qihu	**4,183**	246
Beijing Qifutong Technology Co., Ltd.* ("**Beijing Qifutong**")	360 Technology's Subsidiary	**8**	159
Shanghai Songheng Network Technology Co., Ltd. ("**Shanghai Songheng**")	Shareholder of the Company	**–**	72
Tianjin Shanhu Information and Technology Co., Ltd. ("**Tianjin Shanhu**")	Controlled by Tian Ye	**	70
Beijing Star World Technology Co., Ltd. ("**Beijing Star World**")	360 Technology's subsidiary	**6**	47
Sihai Chuangwei	Associate of the Group	**8**	8
Tianjin Youbenzhiquan	Associate of the Group	**–**	1
Total		**4,205**	6,233

* English name for reference only.

** Tianjin Shanhu is no longer the Group's related party for the year ended 31 December 2022.

The Group allows a credit period of 90 to 120 days to its customers of online advertising services, operation of exclusive licensed online game business, sales of certified pre-owned and factory other electronic devices and smart accessories. Customers of online game platforms usually prepay the consideration before services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

19. TRADE RECEIVABLES (CONTINUED)

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the dates of delivery of goods/dates of rendering of services.

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
0–90 days	**35,734**	35,532
91–180 days	**1,722**	10,929
Over 180 days	**748**	3,408
	38,204	49,869

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB750,000 (2021: RMB10,661,000) which are past due as at the reporting date. Out of the past due balances, RMB473,000 (2021: RMB406,000) has been past due 90 days or more and is not considered as in default as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due:

	31/12/2022	31/12/2021
	RMB'000	*RMB'000*
Days past due		
0–90 days	**277**	10,255
91–180 days	**73**	309
181–365 days	**400**	97
	750	10,661

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed when necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. TRADE RECEIVABLES (CONTINUED)

In addition, the management of the Group estimates the amount of lifetime ECL of trade receivables collectively based on the Group's internal credit ratings for not credit-impaired debtors and individually for credit-impaired debtors. Collective assessment is performed by grouping of various debtors that have similar loss patterns after considering ageing and past-due status, repayment history and nature, size and industry of debtors of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis within lifetime ECL (not credit-impaired).

As at 31 December 2022

Internal credit rating	**Gross carrying amount** *RMB'000*	**Average loss rate** *%*	**Loss allowance** *RMB'000*
Low risk	**29,692**	**0.04**	**12**
Medium risk	**8,198**	**0.73**	**60**
High risk	**452**	**14.60**	**66**
	38,342		**138**

As at 31 December 2021

Internal credit rating	Gross carrying amount *RMB'000*	Average loss rate *%*	Loss allowance *RMB'000*
Low risk	17,623	0.08	14
Medium risk	32,485	1.03	333
High risk	125	13.60	17
	50,233		364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

19. TRADE RECEIVABLES (CONTINUED)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2022, credit-impaired debtors with gross carrying amounts of RMB6,352,000 (2021: RMB6,350,000), were assessed individually and 100% loss rate was applied.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) *RMB'000*	Lifetime ECL (credit-impaired) *RMB'000*	Total *RMB'000*
As at 1 January 2021	226	2,485	2,711
Changes due to financial instruments recognised as at 1 January 2021:			
– Impairment losses reversed	(21)	–	(21)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised	159	3,865	4,024
As at 31 December 2021	364	6,350	6,714
Changes due to financial instruments recognised as at 1 January 2022:			
– Impairment losses reversed	(255)	–	(255)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised	29	2	31
As at 31 December 2022	**138**	**6,352**	**6,490**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31/12/2022 RMB'000	31/12/2021 RMB'000
Included in non-current assets:		
Prepayment for acquisition of an associate (Note (i))	4,750	–
Prepayment for game development and license	11,873	–
	16,623	–
Included in current assets:		
Other receivables		
– a related party (Note (ii))	–	9,500
– third parties	10,736	8,538
Less: allowance for credit losses	(5,392)	(4,975)
Deductible value-added tax	3,046	4,961
Prepayments and deferred expenses	11,425	23,847
Online payment platforms (Note (iii))	2,732	1,528
Interest receivables	136	744
	22,683	44,143
Total	39,306	44,143

Notes:

(i) The amount represents prepayment amounted to RMB4,750,000 for acquisition of an associate (Note 32).

(ii) As at 31 December 2021, the amount is unsecured, non-trade, interest-free and with a term of one year from Tianjin Qiyu and was fully settled during the year ended 31 December 2022.

(iii) The amount is unsecured, interest-free and repayable on demand and it represents receivables from independent third party payment platforms in respect of the Group's online game platforms.

21. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

Cash and cash equivalents of the Group include demand deposits and short term deposits for the purpose of meeting the Group's short term cash commitments.

As at 31 December 2022, the Group's bank balances and short term deposits amounted to RMB532,902,000 (2021: RMB384,974,000) carried interest rates, per annum, ranging from 0.01% to 5.06% (2021: 0.01% to 1.82%) and the Group had no cash balance (2021: RMB1,000), such balances are held for meeting short-term cash commitments and are included in cash and cash equivalents.

As at 31 December 2022, the Group had no restricted bank deposits (2021: RMB1,100,000 carried an interest rate of 2.05% per annum).

Details of impairment assessment of bank balances and restricted bank deposits are set out in Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

22. TRADE AND OTHER PAYABLES

	31/12/2022 *RMB'000*	31/12/2021 *RMB'000*
Trade payables		
– related parties	**82**	544
– third parties	**16,332**	13,372
Other payables	**5,407**	3,923
Payables arisen from online game platforms business (Note)	**3,603**	7,330
Payroll payable	**19,281**	13,588
Dividends payable to non-controlling interests	**4,570**	–
Other tax payable	**1,096**	1,347
	50,371	40,104

Note: The amount is unsecured, interest-free and repayable on a monthly basis and represents payable to online game developers and operators for prepayments collected by the Group from third party game players.

Details of amounts due to related parties included in trade payables are as follows:

Related parties	**Relationship**	31/12/2022 *RMB'000*	31/12/2021 *RMB'000*
Beijing Qihu	Shareholder of the Company	**28**	280
Shanghai Songheng	Shareholder of the Company	**54**	208
Tianjin Shanhu	Controlled by Tian Ye	*	56
		82	544

* Tianjin Shanhu is no longer the Group's related party for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

22. TRADE AND OTHER PAYABLES (CONTINUED)

The credit period granted by trade creditors is normally within three months. The following is an aging analysis of trade payables presented based on the dates of delivery of goods/dates of rendering of services:

	31/12/2022 RMB'000	31/12/2021 RMB'000
0–90 days	**15,861**	13,137
91–180 days	**32**	311
Over 180 days	**521**	468
Total	**16,414**	13,916

23. CONTRACT LIABILITIES

The balances represents amounts received in advance of delivery of goods or services to customers. The contract liabilities as at 31 December 2021 are recognised as revenue during the year ended 31 December 2022. The contract liabilities as at 31 December 2022 are expected to be recognised as revenue during the year ending 31 December 2023.

24. SHARE CAPITAL

	Number of shares	Amount HK$	Amount RMB	Shown in the consolidated statement of financial position RMB'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January 2021, 31 December 2021 and 31 December 2022	10,000,000,000	100,000,000	90,320,827	
Issued and fully paid				
At 1 January 2021, 31 December 2021 and 31 December 2022	269,000,000	2,690,000	2,424,676	2,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

25. LEASE LIABILITIES

	31/12/2022 *RMB'000*	31/12/2021 *RMB'000*
Current liabilities	**2,144**	1,929
Non-current liabilities	**880**	1,251
	3,024	3,180
Lease liabilities payable:		
– within one year	**2,144**	1,929
– more than one year, but not exceeding two years	**880**	1,184
– more than two years	**–**	67
	3,024	3,180

The Group leased properties for its office premises and the lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate at the lease commencement date. The rate applied is 4.75% per annum. All leases are entered at fixed rates.

Leases are negotiated and fixed for the terms in the range of 2 to 4 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

26. RETIREMENT BENEFIT PLAN

The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The contributions made by the Group in respect of the retirement benefit scheme amounting to approximately RMB4,752,000 (2021: RMB4,380,000) are included in cost of sales and services, administrative expenses, research and development expenses or selling and distribution expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

27. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties:

i Transactions with related parties

	Relationship	2022 RMB'000	2021 RMB'000
Revenue from Shanghai Songheng	Shareholder of the Company	**51**	459
Revenue from Beijing Star World	360 Technology's subsidiary	**5,499**	13,392
Revenue from Tianjin Shanhu	Controlled by Tian Ye	**	865
Revenue from Beijing Qiyuan Technology Co., Ltd.* ("**Beijing Qiyuan**")	360 Technology's subsidiary	**–**	37,366
Revenue from Tianjin Youbenzhiquan	Associate of the Group	**–**	5
Revenue from 360 Technology	Shareholder of Beijing Qihu	**30,451**	263
Revenue from Tianjin Qiyu	Associate of the Group	**105,469**	16,801
Revenue from Beijing Qifutong	360 Technology's subsidiary	**241**	677
Cost to Beijing Qihu	Shareholder of the Company	**219**	461
Cost to 360 Technology	Shareholder of Beijing Qihu	**–**	1,931
Cost to Shanghai Songheng	Shareholder of the Company	**371**	438
Cost to Beijing Star World	360 Technology's subsidiary	**86**	–
Cost to Beijing Qiyuan	360 Technology's subsidiary	**–**	1,119
Cost to Tianjin Shanhu	Controlled by Tian Ye	**	732

* English name for reference only.

** Tianjin Shanhu is no longer the Group's related party for the year ended 31 December 2022.

ii Compensation of key management personnel

The remuneration of directors and other members of key management of the Group were as follows:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	**8,193**	8,849
Retirement benefit scheme contributions	**74**	134
	8,267	8,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Group, comprising issued share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares and new debts, if necessary.

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31/12/2022 ***RMB'000***	31/12/2021 *RMB'000*
Financial assets		
Financial assets at FVTPL	**24,600**	81,953
Amortised cost		
Trade receivables	**38,204**	49,869
Other receivables*	**8,212**	15,335
Restricted bank deposits	**–**	1,100
Cash and cash equivalents	**532,902**	384,975
	603,918	533,232
Financial liabilities		
Amortised cost		
Trade and other payables**	**29,994**	25,169

* Deductible value-added tax and prepayments and deferred expenses are excluded

** Payroll payable and other tax payable are excluded

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, financial assets at FVTPL, other receivables, restricted bank deposits, cash and cash equivalents and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign Currency risk

The Group has bank balances, trade receivables and trade payables which are denominated in US dollars (the "**USD**"). The Group also has bank balances which are denominated in HK$ and European Dollars ("**EUR**"). The carrying amounts of the Group's USD, HK$ and EUR denominated monetary assets and liabilities at the end of the reporting period are as follows:

	31/12/2022 *RMB'000*	31/12/2021 *RMB'000*
USD		
Assets	**71,068**	70,750
Liabilities	**(1,765)**	(1,879)
HK$		
Assets	**33,395**	37,463
EUR		
Assets	**6,458**	2,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

(a) ***Market risk*** *(continued)*

(i) Foreign Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the USD, HK$ and EUR. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, HK$ and EUR 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit after tax where RMB strengthens 5% against USD, HK$ and EUR. For a 5% weakening of RMB against USD, HK$ and EUR, there would be an equal and opposite impact on the profit.

	2022	2021
	RMB'000	*RMB'000*
Profit or loss related to USD	**3,067**	3,025
Profit or loss related to HK$	**1,664**	1,837
Profit or loss related to EUR	**274**	93

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to lease liabilities. The Group is also exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

No sensitivity analysis is prepared for variable-rate interest bearing bank balances as the exposure is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

(a) ***Market risk*** *(continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in unquoted equity securities measured at FVTPL. The Group has appointed a special team to monitor the price risk.

Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in Note 29 (d).

(b) ***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and other receivables and other financial assets at amortised costs and to categorise exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

For trade receivables, please refer to Note 19.

For other receivables and other financial assets at amortised cost, the management makes periodic individual assessment on the recoverability based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Group performs impairment assessment under 12m ECL model on other receivables at amortised cost. Impairment loss recognised on other receivables amounted to RMB417,000 was recognised during the year ended 31 December 2022 (2021: RMB4,725,000).

The management believes that there are no significant increase in credit risk of deposits since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022 and 2021, the Group assessed the ECL for deposits are insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

(b) ***Credit risk*** *(continued)*

The Group's current credit risk grading framework in respect of other receivables and other financial assets at amortised cost comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit–impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

For structured bank deposits which classified as financial assets at FVTPL and bank balances, no impairment allowance was recognised was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks having good reputation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

(c) Liquidity risk

In management of the liquidity risk, the management of Group monitors and maintains level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay).

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on management's best estimates at the end of the reporting period, taking into consideration interest rate curve, if available.

	Weighted average effective interest rate %	On demand or within 3 months RMB'000	3 months–1 year RMB'000	1–2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
As at 31 December 2022						
Non-interest bearing						
Trade and other payables	N/A	29,994	–	–	29,994	29,994
Interest bearing						
Lease liabilities	4.75	690	1,531	889	3,110	3,024
		30,684	1,531	889	33,104	33,018

	Weighted average effective interest rate %	On demand or within 3 months RMB'000	3 months–1 year RMB'000	1-2 years RMB'000	2-5years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
As at 31 December 2021							
Non-interest bearing							
Trade and other payables	N/A	25,169	–	–	–	25,169	25,169
Interest bearing							
Lease liabilities	4.75	548	1,472	1,202	67	3,289	3,180
		25,717	1,472	1,202	67	28,458	28,349

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

(d) Fair value measurement

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobserverble inputs to fair value
Unlisted equity investment classified at financial assets at FVTPL	31 December 2022 – RMB3,000,000	Level 3	Market multiple approach based on the recent transaction price	Multiples used in the recent transaction price	The higher the multiples used in the recent transaction price, the higher the fair value; the lower the multiples used in the recent transaction price, the lower the fair value.
Unlisted equity investment classified at financial assets at FVTPL	31 December 2021 – RMB1,600,000	Level 3	Market multiple approach based on the recent transaction price	Multiples used in the recent transaction price	The higher the multiples used in the recent transaction price, the higher the fair value; the lower the multiples used in the recent transaction price, the lower the fair value.
Structured bank deposits	31 December 2022 – RMB20,000,000	Level 3	Discount cash flow models	Discount rate/ estimated return	The higher the discount rate, the lower the fair value; the lower the estimated return, the lower the fair value

The management of the Group considers that the carrying amounts of other financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their fair values. The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES/NET DEBT RECONCILIATION

	Other payables *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2021	–	6,403	6,403
Inception of leases	–	1,613	1,613
Termination of leases	–	(2,396)	(2,396)
Interest expenses	–	172	172
Dividends paid to a non-controlling interests shareholder	4,796	–	4,796
Financing cash flows	(4,796)	(2,612)	(7,408)
At 31 December 2021	–	3,180	3,180
Inception of leases	–	1,927	1,927
Modification of leases	–	421	421
Interest expenses	–	128	128
Rental concession	–	(188)	(188)
Dividends declared to a non-controlling interests shareholder	7,204	–	7,204
Purchase of non-controlling interests	2,184	–	2,184
Financing cash flows	(4,818)	(2,444)	(7,262)
At 31 December 2022	**4,570**	**3,024**	**7,594**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

31. PARTICULARS OF SUBSIDIARIES

Details of the principal subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiaries	Date and place of establishment/ incorporation	Class of shares held	Paid up issued/ registered capital	Effective equity interest and voting rights attributable to the Company at 31 December		Principal activities
				2022 %	2021 %	
360 Ludashi Consulting Limited	27 March 2018 the British Virgin Islands	directly held	Nil/ US$50,000	100	100	Investment holding
360 Ludashi Technology Limited ("**Ludashi Technology**")	15 February 2018 HK	indirectly held	Nil/ HK$10,000	100	100	Investment holding
Anyixun	20 October 2015 the PRC	indirectly held	RMB50,300,000/ RMB50,300,000	100	100	Online advertising
Chengdu Qilu	25 November 2014 the PRC	contractual arrangement	RMB8,500,000/ RMB10,500,000	100	100	Online game business/ Online advertising
Liu Liuyou Technology	17 April 2017 the PRC	contractual arrangement	RMB6,500,000/ RMB12,500,000	89.2	88	Online game business
Tianjin Xiaolu Second-Hand Technology Co., Ltd.*	25 April 2017 the PRC	indirectly held	RMB9,500,000/ RMB17,500,000	100	100	Online advertising
Zhongzhixing	27 June 2017 the PRC	indirectly held	Nil/ RMB20,000,000	100	100	Online advertising
Shanghai Qilu Network Technology Co., Ltd.*	15 January 2019 the PRC	indirectly held	RMB1,000,000/ RMB10,000,000	100	100	Online advertising
Chengdu Luyi Technology Co., Ltd.*	17 December 2020 the PRC	indirectly held	RMB10,000,000/ RMB10,000,000	100	100	E-commerce advertising
Hainan Yunyou Technology Co., Ltd.* ("**Hainan Yunyou**") (Note)	9 October 2022 the PRC	indirectly held	USD1,000,000/ USD2,000,000	100	N/A	Online advertising

* English name for reference only.

Note: In October 2022, Ludashi Technology established Hainan Yunyou with equity interest of 100%.

No subsidiaries have material non-controlling interests as at 31 December 2022 and 2021.

None of the subsidiaries had issued any debt securities at the end of the year.

The Company's financial year end date is 31 December, which is consistent with all other group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

32. EVENTS AFTER THE REPORTING PERIOD

On 26 September 2022, the Group entered into an investment agreement with a company principally engaged in game development and operation business in the PRC (the "Target Company") and its shareholders to acquire 15% equity interests of the Target Company through capital injection into the Target Company on a fully diluted basis for a consideration of RMB9,500,000, and the transaction was completed in January 2023 upon the satisfaction of the conditions stipulated in the agreement.

According to the agreement, the Group has the right to appoint one of the three directors of the Target Company, and according to the articles of association, the board of directors of the Target Company is responsible to approve the decision to direct the operation and financing activities of the Target Company and the directors of the Company consider that the Group has significant influence over the Target Company and it is therefore classified as an associate of the Group upon the completion of the transaction.

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31/12/2022 ***RMB'000***	31/12/2021 *RMB'000*
Non-current asset		
Investment in a subsidiary	**90,213**	90,213
Current assets		
Other receivables, deposits and prepayments	**492**	302
Cash and cash equivalents	**64,063**	61,827
	64,555	62,129
Current liabilities		
Trade and other payables	**483**	771
Amounts due to subsidiaries	**61,485**	61,485
	61,968	62,256
Net current assets (liabilities)	**2,587**	(127)
Total assets less current liabilities	**92,800**	90,086
Capital and reserves		
Share capital	**2,425**	2,425
Reserves	**90,375**	87,661
	92,800	90,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2022

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Share premium *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2021	121,562	(9)	(28,664)	92,889
Loss and total comprehensive expense for the year	–	–	(5,228)	(5,228)
At 31 December 2021	121,562	(9)	(33,892)	87,661
Profit and total comprehensive income for the year	**–**	**–**	**2,714**	**2,714**
At 31 December 2022	**121,562**	**(9)**	**(31,178)**	**90,375**

FINANCIAL SUMMARY

SUMMARIZED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

RMB'000	2018	2019	2020	2021	**2022**
Revenue	320,266	404,495	347,901	337,925	**359,102**
Gross profit	159,504	194,354	187,154	166,667	**178,137**
Profit before taxation	92,051	119,679	86,869	63,712	**72,103**
Profit and total comprehensive income for the year	75,984	106,469	77,097	57,664	**65,560**
Profit attributable to equity holders of the Company for the year	71,913	104,702	72,669	55,038	**60,486**

SUMMARIZED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB'000	2018	2019	2020	2021	**2022**
Non-current assets	10,683	26,665	57,867	31,544	**46,668**
Current assets	266,612	471,395	470,693	561,145	**614,537**
Current liabilities	36,595	54,078	32,661	46,479	**59,194**
Non-current liabilities	20,691	2,833	3,753	1,251	**880**
Total equity	220,009	441,149	492,146	544,959	**601,131**

SUMMARIZED CONSOLIDATED STATEMENT OF CASH FLOWS

RMB'000	2018	2019	2020	2021	**2022**
Cash and cash equivalents at beginning of the year	115,703	174,147	312,368	369,233	**384,975**
Net cash generated from operating activities	41,439	54,596	138,921	92,658	**94,151**
Net cash (used in) generated from investing activities	(1,228)	(31,966)	(36,810)	(67,681)	**50,469**
Net cash (used in) generated from financing activities	18,233	116,179	(41,582)	(7,408)	**(7,262)**
Net increase in cash and cash equivalents	58,444	138,809	60,529	17,569	**137,358**
Effect of foreign exchange rate changes	–	(588)	(3,664)	(1,827)	**10,569**
Non-pledged bank deposits with maturity of more than three months	–	26,000	–	–	**–**
Cash and cash equivalents at end of the year	174,147	338,368	369,233	384,975	**532,902**

DEFINITION AND GLOSSARY

"360"	360 Security Technology Inc. (三六零安全科技股份有限公司) (formerly known as Jiangnan Jiajie Elevator Stock Company Limited* (江南嘉捷電梯股份有限公司)), a joint stock company with limited liability incorporated in the PRC and ultimately controlled by Mr. Zhou Hongyi, one of our controlling shareholders, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (stock code of 601360.SH), and one of our controlling shareholders
"360 Group"	360 and its subsidiaries
"360 Technology"	360 Technology Group Co., Ltd.* (三六零科技集團有限公司) (formerly known as Tianjin Qisi Technology Company Limited* (天津奇思科技有限公司), 360 Technology Inc.* (三六零科技股份有限公司) and 360 Technology Co., Ltd.* (三六零科技有限公司)), a limited liability company established in the PRC on 15 September 2011 and directly wholly owned by 360, one of our controlling shareholders, and one of our controlling shareholders
"AGM"	the annual general meeting of the Company to be held on 31 May 2023
"Anyixun Technology" or "WFOE"	Chengdu Anyixun Technology Company Limited* (成都安易迅科技有限公司), a limited liability company established in the PRC on 20 October 2015 and a wholly-owned subsidiary of the Group
"Articles of Association" or "Articles"	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
"Chengdu Qilu"	Chengdu Qilu Technology Company Limited* (成都奇魯科技有限公司), a limited liability company established in the PRC on 25 November 2014 and is deemed to be a wholly-owned subsidiary of the Group pursuant to the Contractual Arrangements
"Chengdu Qilu Shareholder Rights Entrustment Agreement"	the agreement dated 15 January 2018 and taking effect from 29 December 2016 among Mr. Tian Ye, Qihu Technology and Chengdu Qilu, pursuant to which Mr. Tian Ye is entrusted by Qihu Technology to exercise all of Qihu Technology's rights as a shareholder of Chengdu Qilu (including but not limited to Qihu Technology's voting power at general meetings of Chengdu Qilu)

DEFINITION AND GLOSSARY

"China" or the "PRC"	the People's Republic of China, but for the purpose of this annual report, excluding Hong Kong, Macau Special Administration Region of the PRC and Taiwan
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company" or "the Company"	360 LUDASHI HOLDINGS LIMITED (360魯大師控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, whose shares are listed on the Main Board of the Stock Exchange
"Company Shareholder Rights Entrustment Agreement"	the agreement dated and taking effect on 4 September 2018 between Dashi Technology Holdings and True Thrive, pursuant to which Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive's rights as a Shareholder (including but not limited to True Thrive's voting power at general meetings of the Company)
"Contractual Arrangements"	a series of contractual arrangements entered into among WFOE, Chengdu Qilu and the Relevant Shareholders, details of which are described in "Contractual Arrangements" in the Prospectus
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules, and unless the context requires otherwise, for the purpose of the Listing Rules, refers to Mr. Tian Ye, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou Hongyi
"Dashi Technology Holdings"	Dashi Technology Holdings Limited (大師控股有限公司), a company incorporated in the British Virgin Islands with limited liability on 31 January 2018 and directly wholly owned by Mr. Tian Ye, one of our controlling shareholders
"Deed of Non-Competition"	the deed of non-competition dated 9 September 2019 entered into by Mr. Tian Ye and Dashi Technology Holdings with and in favor of the Company (for ourselves and as trustee for each of our subsidiaries) with particulars set out in the paragraph headed "Relationship with Controlling Shareholders – Non-competition undertaking by Mr. Tian and Dashi Technology Holdings" in the Prospectus
"Director(s)"	director(s) of the Company

DEFINITION AND GLOSSARY

"Entrustment Arrangements"	the entrustment arrangements under the Company Shareholder Rights Entrustment Agreement and the Chengdu Qilu Shareholder Rights Entrustment Agreement in relation to the shareholder rights of True Thrive in the Company in favor of Dashi Technology Holdings and the shareholder rights of Qihu Technology in Chengdu Qilu in favor of Mr. Tian Ye, respectively, details of which are set out in the paragraph headed "History, Reorganization and Corporate Structure – Entrustment Arrangements" in the Prospectus
"Group", "we", "us" and "our", "360 Ludashi" or "Ludashi"	the Company, our subsidiaries and the PRC Operating Entities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hongmeng Investment"	Hongmeng Investment Co. Ltd (鴻蒙投資有限公司), a limited liability company incorporated in the British Virgin Islands on 16 March 2018 and directly wholly owned by Mr. He Shiwei, a Director
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	10 October 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Liu Liuyou Technology"	Tianjin Liu Liuyou Technology Company Limited* (天津六六遊科技有限公司), a limited liability company established in the PRC on 17 April 2017
"Ludashi Software"	hardware and system benchmarking and monitoring software and App operated by the Group
"MAU(s)"	monthly active user(s), a key performance indicator for software, Apps and online games. Monthly active users are calculated by counting the number of unique devices that activate the software, Apps or online games for at least once during a calendar month

DEFINITION AND GLOSSARY

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"PC(s)"	personal computers
"PRC Operating Entities"	collectively, Chengdu Qilu and its subsidiaries (and "**PRC Operating Entity**" means any one of them), the financial results of which have been consolidated and accounted for as the subsidiaries of the Group by virtue of the Contractual Arrangements
"Prospectus"	the prospectus of the Company dated 26 September 2019
"Qihu Technology"	Beijing Qihu Technology Company Limited* (北京奇虎科技有限公司), a limited liability company incorporated in the PRC on 13 August 2007, one of the Relevant Shareholders and directly wholly owned by 360 Technology, one of our controlling shareholders
"Qilu Haochen"	Chengdu Qilu Haochen Enterprise Management Consulting Company Limited* (成都奇魯昊宸企業管理諮詢有限公司), a limited liability company incorporated in the PRC on 7 February 2018, and one of the Relevant Shareholders, wholly owned by independent third parties
"Qixin Zhicheng"	Tianjin Qixin Zhicheng Technology Company Limited* (天津奇信志成科技有限公司), a limited liability company established in the PRC on 2 December 2015 and one of our controlling shareholders for the purpose of the Listing Rules, ultimately controlled by Mr. Zhou Hongyi, one of our controlling shareholders for the purpose of the Listing Rules
"Relevant Shareholder(s)"	Qihu Technology, Mr. Tian Ye, Shanghai Songheng and Qilu Haochen, being the registered shareholders of Chengdu Qilu
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the period from 1 January 2022 to 31 December 2022
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Dongfangwang"	Shanghai Dongfangwang Stock Company Limited* (上海東方網股份有限公司), a limited liability company established in the PRC on 5 July 2000

DEFINITION AND GLOSSARY

"Shanghai Gaoxin"	Shanghai Gaoxin Computer System Company Limited* (上海高欣計算機系統有限公司), a limited liability company established in the PRC on 4 January 2013 and wholly owned by Shanghai Songheng, one of our Relevant Shareholders and a substantial shareholder of the Company
"Shanghai Songheng"	Shanghai Songheng Network Technology Company Limited*(上海嵩恒網絡科技股份有限公司) (formerly known as Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技有限公司)), a limited liability company established in the PRC on 18 March 2014 and owned aggregately by 20 Independent Third Parties, and one of the Relevant Shareholders and a substantial shareholder of the Company
"Songheng Group"	Shanghai Songheng and its subsidiaries
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the Share option scheme conditionally adopted by the Company on 9 September 2019, a summary of the principal terms and conditions of which are set forth in "Appendix IV – Statutory and General Information – D. Share Option Scheme" in the Prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Songchang International"	Songchang International Limited, a limited liability company incorporated in the British Virgin Islands on 9 May 2018, wholly owned by Songyuan International, a substantial shareholder of the Company, and a substantial shareholder of the Company
"Songyuan International"	Hong Kong Songyuan International Limited (香港嵩遠國際有限公司), a limited liability company incorporated in Hong Kong on 1 December 2017, indirectly wholly owned by Shanghai Songheng, one of the Relevant Shareholders and a substantial shareholder of the Company, and a substantial shareholder of the Company
"Star World"	Beijing Star World Technology Company Limited* (北京世界星輝科技有限責任公司), a limited liability company incorporated in the PRC on 12 October 2009, wholly owned by 360 Technology, one of our controlling shareholders, and a connected person of the Company
"True Thrive"	True Thrive Limited (誠盛有限公司), a limited liability company incorporated in the Cayman Islands on 12 October 2015, wholly owned by 360 Technology, one of our controlling shareholders, and one of our controlling shareholders
"%"	per cent

* *For identification purpose only*