2021 ANNUAL REPORT | 年度報告

XD Inc. 心动有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：2400

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CORPORATE INFORMATION

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Huang Yimeng *(Chairman and Chief Executive Officer)*
Mr. Dai Yunjie
Mr. Fan Shuyang
Mr. Shen Sheng (retired on June 25, 2021)

Non-executive Directors

Mr. Liu Wei
Mr. Tong Weiliang (retired on June 25, 2021)

Independent Non-executive Directors

Mr. Pei Dapeng
Mr. Xin Quandong
Ms. Liu Qianli

AUDIT COMMITTEE

Mr. Xin Quandong *(Chairman)*
Mr. Pei Dapeng
Ms. Liu Qianli

REMUNERATION AND APPRAISAL COMMITTEE

Ms. Liu Qianli *(Chairman)*
Mr. Dai Yunjie
Mr. Xin Quandong

NOMINATION COMMITTEE

Mr. Pei Dapeng *(Chairman)*
Mr. Huang Yimeng
Ms. Liu Qianli

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Huang Yimeng *(Chairman)*
Mr. Dai Yunjie
Mr. Liu Wei
Mr. Pei Dapeng
Mr. Tong Weiliang (retired on June 25, 2021)

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang
Mr. Yim Lok Kwan

AUTHORISED REPRESENTATIVES

Mr. Fan Shuyang
Mr. Yim Lok Kwan

AUDITOR

PricewaterhouseCoopers
(Registered Public Interest Entity Auditors)

REGISTERED OFFICE

Campbells Corporate Services Limited
Floor 4, Willow House, Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE IN THE PRC

Unit A2, No. 700
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Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR

Campbells Corporate Services Limited
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Grand Cayman KY1-9010
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

HONG KONG LEGAL ADVISER

DLA Piper Hong Kong

PRINCIPAL BANKS

China Merchants Bank (Shanghai Branch, Daning Sub-branch)
China Citic Bank (Shanghai Branch, Daning Sub-branch)

WEBSITE

2400.hk

STOCK CODE

2400

02

CHAIRMAN’S LETTER

CHAIRMAN'S LETTER

To our esteemed investors and partners,

In the blink of an eye, a year has passed since our previous annual letter. The uncertainty we faced in 2021 proved to be a difficult source of anxiety and apprehension.

XD may just be a gaming company, but we aim to do everything in our power to make a positive impact on the world, to build bridges between our cultures, and to preserve the invaluable diversity that exists within. Using video games as a conduit, we are here for a world of gamers and developers, eliminating prejudice and connecting individuals.

The COVID-19 pandemic failed to come to an end as we had all hoped, and the world has become increasingly fragmented by conflicts between nations, cultures, and ideologies.

New domestic policies within China gave rise to considerable challenges that were faced by all companies within the gaming industry. These policies forcefully disrupted existing product launch plans, as well as TapTap's procurement of new content pipeline and advertising revenue. Despite these challenges, we understand that these structural adjustments are necessary for our industry to be more competitive and sustainable. In the course of time, we will find an even greater environment for innovation, artistic expression, and social responsibility within the video game ecosystem.

These external factors have greatly impacted our overall corporate strategy last year, and must continue to be considered while determining our direction for this fiscal year. First and foremost, more research and development (R&D) costs will be committed to products suitable for international markets and diverse cultures. Secondly, we will focus greatly on refining the performance at each phase of the development and publishing process for all our games to ensure the certainty of their commercial success. Thirdly, we will use our available funds to ensure both the company breaks even in 2023 and we meet our own development goals.

Overall, our strategy remains consistent, and we stand steadfast in our ideals. There are still countless opportunities to explore.

Although the international disputes continued, we firmly believe the shared values of humanity that span across countries, cultures, and religions will ultimately prevail. Above all else, we hope to see the citizens of the world united and seek peace together.

Although we found ourselves confronting the various aforementioned challenges, a closer look reveals continued tangible progress made.

In 2021 alone, 5 of our titles went online in Campfire, TapTap's closed beta testing workflow: *Flash Party (派對之星), T3 Arena, Torchlight: Infinite (火炬之光：無限), Sword of Convallaria (鈴蘭之劍)*, and *XD Town (心動小鎮)*. Both Flash Party and T3 Arena remained online after the initial tests, and received new live service content updates over the past year in parallel with a growing community of players, fans, and influencers. The other three titles also garnered a strong following and a great deal of interest. The reception of these games and the positive feedback from our player-base serve as proof that the titles we built meet our audience's expectations while both seizing market opportunities and creating experiences that they truly love. Yes, the pride we have in our success is derived from cold hard data and strong analytics, but even more so from the heartwarming reactions of our players, colleagues, friends, and families.

In addition to the titles launched through Campfire, several more games developed by XD were unveiled to the public at the 2021 TapTap Presents. It brings me great joy to see games that we have developed in-house through years of devotion get their chance to shine in the spotlight. While the resources currently available for R&D have proved to be a limiting factor when aiming to meet the production quality and technological standards set forth by AAA titles and mainstream games, the XD family has shown that through focused effort and persistence, we are able to close the gap.

Our Premium Games publishing division and TapTap Indie Partnerships also showcased their latest games at the 2021 conference. 2021 alone, over half a dozen million copies of premium games were purchased on TapTap and those from XD's Premium Games publishing division accounted for over half those sales. *Terraria Mobile (泰拉瑞亞移動版) and Human: Fall Flat (人類跌落夢境)* are two examples of standout premium titles published by XD, both outperforming freemium games and claiming the No.1 spot in the domestic downloads charts. TapTap has proved to be a valuable marketplace for premium games to grow awareness and sales.

Of course, such impressive sales are in large thanks to the power of TapTap's player base and their unique community-minded spirit. We often find that a premium title's sales on TapTap will exceed its global downloads on both Google Play and the App Store combined.

Over the past few years, the call for high quality premium games has grown louder within our gaming community. It is our belief that a diverse selection of titles and genres will entertain our players' unique interests; not every player needs to love every game, and not every game should follow a live service model with infinite content cycles. Driven by this belief, both XD and TapTap will continue to pursue innovative premium titles and explore new genres to offer the best possible support to both developers and players around the world. Games were downloaded from TapTap over 500 million times last year, an increase of 42.1% year-over-year. It is quite the achievement when considering the monumental challenges facing XD and TapTap in 2021: Game licensing was frozen within China for some time now, which resulted in an immediate reduction of new games available for our publishing pipeline. All external factors considered, the growth we see on TapTap is a substantial success.

What I'm most proud of from this past year however, is not how many users we have acquired from other platforms nor the number of downloads we provided, rather the 170+ exclusive partnerships we made with indie games and their developers. Their creations, typically under-valued in most traditional platforms, would have faced an incredible challenge to win the attention they so rightly deserve. With TapTap, we have been able to showcase their artistry through hundreds of millions of downloads, thereby providing a platform on which they can do more than just survive — they thrive.

As a truly gaming-focused platform, TapTap provides developers with exposure and financial support such that they can focus on crafting great experiences. Our dream is that, with TapTap's support, a whole new generation of vibrant and unique games that focus on game design over monetization can exist. This is the valued impact that we hope to contribute to the entire gaming industry.

Analyzing the current Western gaming market reveals a stark parallel to the environment which gave rise to TapTap and our ethos back in 2016. Many of the games that frequently make it to the top of Google Play "Free Games" charts are riddled with abrasive advertising content or simply have low production quality as they focus too much on short-term monetization. One explanation for this is that in the United States and Europe, the typical target audience for mobile gaming greatly differs from their counterparts on PC and consoles. For example, we need look no further than the 2018 *Diablo Immortal (暗黑破壞神：不朽)* reveal. When a presenter told the dedicated Diablo fanbase in attendance that "we don't have any plans at the moment to do PC", he was greeted with boos from the audience. The memorable "Do you guys not have phones?" meme would then go on to spread throughout the market. When XD began promoting the upcoming release of *Torchlight: Infinite*, we also saw backlash from existing core players worried about the quality of a mobile game set in the Torchlight universe. My belief is that Western audiences are themselves not adverse to such mobile titles, but rather skeptical of the current state of their mobile gaming market. The lack of truly fun games, a dedicated platform to discover such experiences, and the ability to form a community with like-minded gamers leaves a void unfilled and creates an opportunity to be seized.

This opportunity is one that TapTap and our games will seize outside of China. In short, the primary focus of TapTap this year is to establish a strong foothold in the American and European markets and begin fostering a high quality, dedicated global player-base. We will achieve this goal by collaborating with even more Chinese developers and assisting them in overcoming the difficulties of entering the global market including advertising, licensing, operations, and more. In fact, TapTap will begin testing an international advertisement system this year to help reduce the global user acquisition costs faced by Chinese developers.

We are also planning to publish our own in-house games in international markets this year. *Flash Party* officially launched in February to an incredible reception by Japanese players. T3 Arena has begun testing on TapTap and will officially launch in May of this year. Both titles are casual competitive games that can support a high number of daily active users (DAU). During the early stages of both games' official launches, we will focus on growing their user base, improving retention, increasing brand awareness, and raising XD and TapTap's commercial value.

After several rounds of testing on TapTap, *Torchlight: Infinite* and *Sword of Convallaria* will also launch officially this year. In addition, XD has several other smaller projects in the pipeline to be tested and launched. While we have controlled expectations in these smaller titles becoming huge commercial successes, they will certainly prove to be invaluable in retaining TapTap users, increasing their activity, and further diversifying our game library.

Publishing partnerships will also continue to be an important facet of our company strategy. One such title we will focus on in 2022 is *Sausage Man (香腸派對)*. The revenue and DAU of *Sausage Man* reached an all-time high during the most recent Spring Festival, 4 years after its original launch in China. We believe that this long-lived domestic title can find even more success by expanding our presence in international markets.

Breaking out of our domestic market, raising our international brand awareness, and cultivating a dedicated audience of global gamers will prove to be no small challenge for TapTap and XD. If we persevere and achieve our goals, however, not only will XD's own titles reap the benefits, but so too will our countless fellow developers who have been restricted by the inability to receive licenses for their inspiring creations.

Lastly, I would like to sincerely thank all of my colleagues, partners, and investors for your continued support and trust. Although we have always said that short-term stock evaluations are not our primary focus, we fully understand the concern and pressure that the market fluctuations brought you. Yet, we are resolute in our belief that we must focus on the core business and ensure its stable development to sustain our long-term, overall value. I have no doubt our dedication and persistence will result in many great things to come.

03

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Our TapTap and premium games have maintained steady growth throughout 2021. However, as our major titles were at the mature stage of their life cycles, and as our newest projects were still in development, the online game revenue for the year ended December 31, 2021 declined as compared to the corresponding period of the previous year. In 2021, we have built out a comprehensive R&D team, continuing to push forward with 13 new game projects as well as restructuring the technical infrastructure behind TapTap and achieving milestones. We have established a regional operations center in Singapore and the average MAU of TapTap International has reached 10 million, which serves as a good foundation for our future overseas expansion. In 2022, we plan to focus on international markets as a key growth area, as well as strive to provide a better gaming and service experience for domestic gamers. In the long term, we will continue to pursue our mission "To impact each and every gamer by promoting the spirit of craftsmanship" by delivering high-quality content to gamers around the world and supporting game developers in the creative and distribution processes.

Despite the deficit from 2021, we continue to be optimised about our prospects. As of December 31, 2021, we hold over RMB3.9 billion in cash, cash equivalents and short-term investments, which is an abundance of capital to support our business endeavors. Most of our games in development are scheduled to be completed and launched in 2022 and 2023.

The following is an overview of our major products and services.

Games

As of December 31, 2021, our portfolio consisted of 19 online games and 19 premium games.

Online Games

For the year ended December 31, 2021, the MAU of our online games decreased by 33.7% as compared to the corresponding period of the previous year, while the average MPU increased by 6.5% as compared to the corresponding period of the previous year. These trends were primarily due to the evident MAU decrease of Sausage Man (香腸派對) as compared to the same period of the previous year. However, there was an increase in payment rates. For the year ended December 31, 2021, Sausage Man (香腸派對), Ragnarok M (仙境傳說M), Ulala (不休的烏拉拉), Arknights (明日方舟) and Lan Yan Qing Meng (藍顏清夢) were our top five games in terms of revenue contribution. The following is an overview of our existing major games.

— **Sausage Man (香腸派對)**: the game was launched in China in April 2018. Although it has been nearly four years since the game was released, as a battle arena game, the game has remained rather popular and has demonstrated continued growth. Following the pandemic in 2020, the game attracted a large influx of new players and recorded a significant surge in MAU. Subsequently in 2021, as the spread of the pandemic in China eased and the stay-at-home order lifted, the MAU of the game declined to a certain extent while the MPU increased, which resulted in an increase in its revenue performance as compared to the corresponding period of the previous year and made it our highest-revenue game in 2021. In January and February 2022, the revenue performance of Sausage Man attributable to users in China continues to record a significant high growth compared to the corresponding period of the previous year. Meanwhile, the game was launched in Southeast Asia at the end of June in 2021 and quickly became popular among players with a record of over 15 million downloads within 30 days since its launch. We also plan to release the game in many overseas countries and regions this year as well.

— **Ragnarok M (仙境傳說M)**: the game was initially launched in China in January 2017, and was subsequently released in many countries and regions around the world, which is now at its maturity stage. Due to the life cycle of the game, the revenue of the game for the year ended December 31, 2021 decreased to a certain extent compared with the same period of the previous year. Early 2022, we made some adjustments to the game's development and operation team aiming to continue to bring more joys to our users.

— **Ulala (不休的烏拉拉)**: the game was initially launched in Taiwan in May 2019, and was subsequently released in many countries and regions around the world, which is now at its maturity stage. Due to the game's current standing in its life cycle, its revenue for the year ended December 31, 2021 was lower compared to the same period of the previous year.

Games in Development

We regard self-developed games as one of the core drivers of our development and continue to increase our investment in game development. As of December 31, 2021, we had approximately 1,270 employees engaged in game development, representing an increase of approximately 140 employees as compared to our number of employees as of December 31, 2020. As of December 31, 2021, we had 13 games in the development stage, five of which have already entered the "TapTap Campfire Project", which is a game test project on TapTap that allows TapTap users to try out game prototypes and volunteer to participate in the early development stage of the game. In January 2022, Torchlight: Infinity (火炬之光：無限), a Diablo-like game, opened a closed test in the North America and received a lot of positive feedbacks from its core gamers. In February 2022, the platform fighting game named Flash Party (派對之星) was released as a soft launch and topped the Apple Store free games list for 12 consecutive days in Japan. In 2022, we expect more games in development to be released in the test stage or officially launch.

Premium games

In addition to expanding our product portfolio and optimizing the ecosystem around our platform, our premium games helped us build a strong reputation in the industry. We achieved steady growth in our premium games business in 2021. Terraria Mobile (泰拉瑞亞移動版) achieved a strong impact within the gamer community. Eastward (風來之國) and Sands of Salzaar (部落與彎刀) topped the leaderboard of top-sellers of Steam and received outstanding user reviews and recorded significant sales across all platforms. Moncage (籠中窺夢) and Dice Elementalist (骰子元素師) have both achieved excellent performance after launched on Steam and TapTap. In the future, we will continue to expand the product portfolio of our premium games, extend product lifecycle, and bring more high-quality and enjoyable experiences to gamers across all platforms.

TapTap

TapTap is also our core competitiveness and one of our driving forces. We rely on game development and publishing to provide TapTap with high-quality exclusive content, which drives TapTap's user growth. In the meantime, TapTap's own product and operation advantages will help retain users and generate revenue, which will then feed the content creation of both first-party and third-party developers through TapTap and in turn generate more quality content and continue to drive the further growth of TapTap.

TapTap China

In 2021, TapTap China had 31.6 million mobile App MAUs and accounted for 579.4 million game downloads, representing an increase of 22.8% and 42.1% as compared to the corresponding period of the previous year, respectively. In the meantime, we reorganized TapTap's organization and recruited a large number of employees for product and technical, and conducted a series of restructuring of TapTap's product and technical framework. With the technology upgrades, the efficiency of the game distribution and advertising system of TapTap have been significantly improved. In 2021, we also developed features such as cloud gaming and Tap Booster to meet more game-related demands of gamers. In July 2021, we held the second annual TapTap presents which introduced 27 new games to our gamer community and generated over 170 million online presentations.

During the period from January to February 2022, the user number of TapTap China continued to grow as compared to the corresponding period in 2021. We plan to sustainably enhance our operations to stimulate user engagement this year to bring better service to more games.

TapTap International

For the year ended December 31, 2021, TapTap International had an average of 12.2 million mobile App MAUs, with an increase of 154.3% as compared to the corresponding period of the previous year. TapTap International grew faster in the first half of 2021 due to the impact of individual popular games and the overseas pandemic, while the number of users declined in the second half of the year. In 2022, we plan to strengthen TapTap's international operations with the key goal of building a community atmosphere and targeting specific regions for product customization and user growth.

Currently, TapTap International is not yet monetized.

TapTap Developer Services

We began to grant third-party developers access to our TapTap Developer Services (TDS) in the second quarter of 2021 and have continuously enriched its functions such as real-time voice, real-name authentication, anti-addiction for minors, friend system, cloud archiving, leaderboards and other features during the year, which are currently serving more than 100 games. As of February 2022, approximately 7 million gamers have earned TapTap achievements in games. In 2022, as well as further enriching its product line, TDS will focus more on internationalization to meet the general demand of Chinese game makers to go abroad on the one hand and attract overseas game developers to TapTap International Edition on the other hand.

Currently, the TDS business is free or cost-based to the third-party developers.

FINANCIAL REVIEW

Revenues

Our revenue is mainly derived from (i) games, the principal operating business where we generate revenue primarily from sales of in-game virtual items in online games and sales of premium games through third-party and our proprietary distribution platforms, and (ii) information services where we generate revenue primarily from providing online marketing services on TapTap. The following table sets forth our revenue by line of business for the years ended December 31, 2021 and 2020.

	For the year ended December 31,			
	2021		2020	
	Amount	**% of revenue**	Amount	% of revenue
	(RMB in thousands, except for percentages)			
Games	**2,010,820**	**74.4**	2,331,967	81.9
Game operating	**1,987,999**	**73.6**	2,291,990	80.5
Online games	**1,784,032**	**66.0**	2,148,320	75.4
Premium games	**203,967**	**7.6**	143,670	5.1
In-game marketing and promotion	**16,309**	**0.6**	36,044	1.3
Others	**6,512**	**0.2**	3,933	0.1
Information services	**692,353**	**25.6**	515,586	18.1
Total revenue	**2,703,173**	**100.0**	2,847,553	100.0

Games

Our revenue from game business decreased by 13.8% to RMB2,010.8 million for the year ended December 31, 2021 on a year-on-year basis. In particular,

— Our revenue from online games decreased by 17.0% to RMB1,784.0 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to a decrease of revenue from certain existing games under maturity stage, such as Ragnarok M (仙境傳說M) and Ulala (不休的烏拉拉), and partially offset by solid performance of Sausage Man (香腸派對).

— Our revenue from premium games increased by 42.0% to RMB204.0 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to (i) the solid performance of Muse Dash (喵斯快跑), (ii) the launch of Human Fall Flat (人類跌落夢境) in TapTap in November 2020, and (iii) the launch of Terraria Mobile (泰拉瑞亞移動版) in TapTap in September 2021.

The following table sets forth a breakdown of our game operating revenue by revenue recognition method for the years ended December 31, 2021 and 2020.

	For the year ended December 31,			
	2021		2020	
	Amount	**%**	Amount	%
	(RMB in thousands, except for percentages)			
Revenue recognized on a gross basis	**1,629,801**	**82.0**	1,719,833	75.0
Revenue recognized on a net basis	**358,198**	**18.0**	572,157	25.0
Total game operating revenue	**1,987,999**	**100.0**	2,291,990	100.0

During the years ended December 31, 2021 and 2020, as a percentage of the total game operating revenue, our game operating revenue recognized on a gross basis increased and that recognized on a net basis decreased, mainly as a result of the decreased revenue contribution from Ragnarok M in overseas markets.

We have started to offer in-game marketing and promotion services in Sausage Man (香腸派對) since January 2020. Our in-game marketing and promotion revenue decreased by 54.8% to RMB16.3 million for the year ended December 31, 2021 on a year-on-year basis, mainly because we no longer treated in-game marketing and promotion services as an important revenue source of this game, in light of the weakness of overall in-game advertisement market and the solid performance of in-game virtual items sales of Sausage Man (香腸派對).

Information services

Our revenue from information services business increased by 34.3% to RMB692.4 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to (i) the growth of the average mobile MAUs of TapTap China, which increased by 22.8% to 31.6 million for the year ended December 31, 2021 on a year-on-year basis, and (ii) the improvement of efficiency of our advertisement system.

We have yet monetized TapTap International.

Cost of Revenues

Our cost of revenue increased by 12.3% to RMB1,476.9 million for the year ended December 31, 2021 on a year-on-year basis. The following table sets forth our cost of revenue by line of business for the years ended December 31, 2021 and 2020.

	For the year ended December 31,			
	2021		2020	
	Amount	**% of segment revenue**	Amount	% of segment revenue
	(RMB in thousands, except for percentages)			
Games	**1,283,763**	**63.8**	1,240,906	53.2
Information services	**193,167**	**27.9**	74,619	14.5
Total	**1,476,930**	**54.6**	1,315,525	46.2

Our cost of revenue for game business primarily consists of sharing of proceeds to game developers and commissions charged by distribution platforms and payment channels where we act as a principal, bandwidth and servers custody fee, employee benefits expenses and amortization of game license fees. Our cost of revenue for information services business primarily consists of bandwidth and servers custody fee and employee benefits expenses. The following table sets forth our cost of revenue by nature for the years ended December 31, 2021 and 2020.

	For the year ended December 31,			
	2021		2020	
	Amount	**%**	Amount	%
	(RMB in thousands, except for percentages)			
Sharing of proceeds to game developers	**467,953**	**31.7**	477,262	36.3
Commissions charged by distribution platforms and payment channels	**398,895**	**27.0**	423,825	32.2
Bandwidth and servers custody fee	**286,861**	**19.4**	189,151	14.4
Employee benefits expenses	**148,055**	**10.0**	66,464	5.1
Amortization of intangible assets	**50,670**	**3.4**	58,927	4.5
Others	**124,496**	**8.5**	99,896	7.5
Total	**1,476,930**	**100.0**	1,315,525	100.0

Our cost of revenue for game business increased by 3.5% to RMB1,283.8 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to the increases in personnel and level of employee benefits of our game operation staff, and partially offset by the decrease in commissions charged by distribution platforms and payment channels, which was generally in line with our moderate decline in game revenue recognized on a gross basis.

Our cost of revenue for information services business increased by 158.9% to RMB193.2 million for the year ended December 31, 2021 on a year-on-year basis, primarily due to increases in bandwidth and servers custody fee, and employee benefits expenses of TapTap's operation staff, which was mainly attribute to (i) the growths in the average mobile MAUs of TapTap China and TapTap International, and (ii) the exploration and expansion of new businesses such as TapTap Developer Services (TDS), TapTap Cloud Gaming, Tap Booster, and international operations.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by 20.0% to RMB1,226.2 million for the year ended December 31, 2021 on a year-on-year basis. Our gross margin decreased to 45.4% for the year ended December 31, 2021 from 53.8% for the year ended December 31, 2020, primarily due to (i) a decrease in our gross margins of game segment from 46.8% for the year ended December 31, 2020 to 36.2% in the corresponding period of 2021, due to the increase in the contribution from game operating revenue recognized on a gross basis to total game operating revenue from 75.0% for the year ended December 31, 2020 to 82.0% in the corresponding period of 2021, mainly due to the solid performances of our licensed games, such as Sausage Man (香腸派對) and Another Eden: The Cat Beyond Time and Space (另一個伊甸：超越時空的貓), (ii) a decrease in gross margin of information services segment from 85.5% for the year ended December 31, 2020 to 72.1% in the corresponding period of 2021, mainly arising from the relevant cost of a number of new businesses such as TapTap International, TDS, TapTap Cloud Gaming and Tap Booster, but have yet monetized them. This decrease was partially offset by an increase in the contribution of revenue from our information services business to our total revenue from 18.1% for the year ended December 31, 2020 to 25.6% in the corresponding period of 2021, which in general enjoys a higher gross margin than the game business.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) promotion and advertising expenses paid to external advertising agencies and professional information dissemination companies, and (ii) employee benefit expenses relating to our selling and marketing personnel.

Our selling and marketing expenses increased by 23.2% to RMB780.2 million for the year ended December 31, 2021 on a year-on-year basis. This was primarily due to (i) the increases in marketing expenses for TapTap China and TapTap International, as we continued to attract new users and bring in high quality exclusive games in both PRC and overseas, (ii) the increases in personnel of video production and streaming media marketing, and (iii) the increases in marketing expenses for existing games through IP collaborations and newly launched games.

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefits expenses relating to our research and development employees, and (ii) professional and technical services fees including art design and technical support for our games.

Our research and development expenses increased by 88.9% to RMB1,242.2 million for the year ended December 31, 2021 on a year-on-year basis. This was primarily due to an increase in the number of our research and development personnel from 1,355 as of December 31, 2020 to 1,635 as of December 31, 2021, the increased levels of employee benefits, and an increase in expenses relating to professional and technical services during the year ended December 31, 2021, as we continued to enhance our game development capabilities and TapTap's user experience.

General and Administrative Expenses

Our general and administrative expenses primarily consist of (i) employee benefits expenses relating to our administrative employees, (ii) office expenses incurred in the ordinary course of business, (iii) professional and technical services fees, such as fees paid to audit and law firms, and (iv) depreciation of property, plant and equipment in connection with our office space in Shanghai and right-of-use assets pursuant to IFRS 16.

Our general and administrative expenses increased by 30.7% to RMB235.1 million for the year ended December 31, 2021 on a year-on-year basis. This was primarily due to (i) the increased back office personnel and the increased level of employee benefits, (ii) the increased rental and utilities expenses as our office spaces enlarged, and (iii) the increased depreciation of property, plant and equipment as our office equipment increased.

Income Tax Credits/(Expenses)

We recorded income tax credits of RMB38.6 million for the year ended December 31, 2021, comparing the income tax expenses of RMB51.2 million for the corresponding period of 2020. Among which, for the year of 2021, we recorded current income tax expense of RMB19.6 million relating to some of our profit-making subsidiaries, and recorded deferred income tax of RMB58.2 million in relation to some of our loss-making subsidiaries.

(Loss)/Profit for the Year

Our net loss for the year was RMB917.3 million for the year ended December 31, 2021, comparing a net profit of RMB55.8 million for the corresponding period of 2020.

(Loss)/Profit for the Year attributable to Equity holders of the Company

Our net loss for the period attributable to equity holders of the Company was RMB863.8 million for the year ended December 31, 2021, comparing a net profit attributable to equity holders of the Company of RMB9.1 million for the corresponding period of 2020.

Our net loss for the year attributable to non-controlling interests was due to non-controlling interests in (i) Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司) ("Yiwan"), (ii) Shanghai Longcheng Network Technology Co., Ltd. ("Longcheng"), (iii) X.D. Global (HK) Limited, (iv) Hyper Times Limited, and (v) Taptap Holding Limited.

Liquidity and Capital Resources

Our cash positions and short-term investments as at December 31, 2021 and December 31, 2020 are as follows:

	As at December 31, 2021 ***(RMB'000)***	As at December 31, 2020 *(RMB'000)*
Cash and cash equivalents	**3,164,726**	2,319,512
Short-term investments		
— Term deposits with initial terms over three months	**102,920**	—
— Wealth management products	**689,518**	—
Restricted Cash	**296**	—
	3,957,460	2,319,512

As at December 31, 2021, our short term investments are mainly consist of (i) term deposits with initial terms ranging from three months to twelve months, and (ii) wealth management products issued by large reputable commercial banks. The principle and returns of such term deposits are guaranteed by relevant banks. These wealth management products invest principally in low risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China. The returns of such wealth management products are not guaranteed or protected by the issuing banks. The effective rates of return of these wealth management products ranges from 0.81% to 4.59% per annum. The increase of our cash positions and short-term investments was primarily due to net cash generated from financing activities of RMB2,387.7 million for the year ended December 31, 2021, and partially offset by the net cash used in operating activities of RMB475.2 million.

As of December 31, 2021, saving for the convertible bonds issued on April 12, 2021, we did not have any borrowings or unutilized banking facilities. These convertible bonds are in the specified denomination of USD200,000 each and integral multiples of USD1,000 thereof with the aggregate principal amounts of USD280.0 million, bearing an interest of 1.25% per annum payable semi-annually and will mature on April 12, 2026.

Our gearing ratio was 52.8% as at December 31, 2021, comparing a gearing ratio of 22.9% as at December 31, 2020. The increase in gearing ratio is mainly attribute to the issue of convertible bonds. This ratio was calculated as total liabilities divided by total assets.

The Company completed an issue of convertible bonds and a placing of new shares in April 2021. Please refer to the announcements of the Company dated March 31, 2021, April 12, 2021 and April 13, 2021 published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (2400.hk) for details.

Material acquisitions and Disposals of Subsidiaries, Associates and Joint ventures

On May 12, 2021, X.D. Network Inc. ("X.D. Network"), our PRC Consolidated Affiliated Entity, entered into a equity transfer agreement with Shanghai Xinhe Business Consultation Partnership (Limited Partnership) (上海芯赫商務諮詢合夥企業(有限合夥)) ("Shanghai Xinhe"), pursuant to which, X.D. Network has conditionally agreed to purchase, and Shanghai Xinhe has conditionally agreed to sell, 6.86% equity interest in Yiwan held by them for a consideration of RMB171,610,290.98. Yiwan operates TapTap, a leading game community and platform in China. For further details, please refer to the announcement of the Company dated May 12, 2021.

Saved for the above, we did not have any significant investment for the year ended December 31, 2021.

Pledge of Assets

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

Future Plans for Material Investments or Capital Assets

As of December 31, 2021, we did not have any future plans for material investments and capital assets.

Foreign Exchange Risk Management

We generate revenue from overseas markets in relation to our international business, and therefore, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Hong Kong dollar. We also pay licensing fees for foreign game developers and intellectual property providers, which are primarily in US dollars. We currently do not adopt any long-term contracts, currency borrowings or other means to hedge our foreign currency exposure.

Contingent Liabilities

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

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BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Huang Yimeng (黃一孟), aged 40, is an executive Director, the Chairman of the Board and the Chief Executive Officer of our Company. Mr. Huang has over 15 years of experience in games, telecommunications, technology and internet industries and is primarily responsible for the overall operations and management of our Group. Mr. Huang has been the chairman of the board of directors of X.D. Network since July 2011. Mr. Huang currently also holds directorships in various of our subsidiaries, our PRC Consolidated Affiliated Entities and Relevant Entities. In addition, Mr. Huang has abundant management experience in the technology industry, including as the chief executive officer of Shanghai Shaosi Network Technology Co., Ltd. (上海少思網絡科技有限公司) from May 2007 to June 2011, and the chief executive officer of Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) from June 2005 to April 2007. Mr. Huang graduated from Fudan High School in China in July 2000.

Mr. Dai Yunjie (戴雲傑), aged 39, is an executive Director and the President of our Company. Mr. Dai has over 15 years of experience in games, telecommunications, technology and internet industries and is primarily responsible for daily operations, overseas business development and human resources of our Group. Mr. Dai has been the president of X.D. Network since July 2011. Mr. Dai currently also holds directorships in various of our subsidiaries, Consolidated Affiliated Entities and Relevant Entities. Mr. Dai has been an executive director of Shanghai Qingwu Network Technology Co., Ltd. (上海輕舞網絡科技有限公司) since August 2014, and an executive director of ShanghaiYinzhi Network Technology Co., Ltd. (上海隱志網絡科技有限公司) since November 2003. In addition,Mr. Dai was the chief operating officer of Shanghai Shaosi Network Technology Co., Ltd. (上海少思網絡科技有限公司) from May 2007 to June 2011, and the chief operating officer of Shanghai Weixi Network Technology Co., Ltd. (上海維西網絡科技有限公司) from June 2005 to April 2007. Mr. Dai graduated from Shanghai University in China majoring in mechanical engineering and automation in June 2006.

Mr. Fan Shuyang (樊舒暘), aged 38, is an executive Director and one of the joint company secretaries of our Company. Mr. Fan has also served as the secretary to the board of directors, the product manager and project manager of X.D. Network since February 2012. Mr. Fan has more than 14 years of experience in game and consultancy industries and is primarily responsible for daily operations, corporate governance and legal and compliance affairs of our Group. Prior to joining our Group, Mr. Fan served as a project manager at SEGA Shanghai (世嘉(上海)) from January 2010 to January 2012, a transfer pricing consultant at KPMG China from July 2009 to December 2009 and a software engineer at SEGA Shanghai from July 2006 to July 2007. Mr. Fan obtained his bachelor's degree in automation from Tongji University in China in July 2007 and his master's degree in electronic business management from University of Warwick in the United Kingdom in January 2009.

Non-Executive Director

Mr. Liu Wei (劉偉), aged 35, is a non-executive Director of our Company. Mr. Liu served as the supervisor of miHoYo Co. Ltd. ("miHoYo") from February 2012 to March 2012; the director and deputy general manager of miHoYo from March 2012 to October 2015; the director, deputy general manager and secretary of the board of directors of miHoYo from October 2015 to April 2016; and from April 2016 to date, Mr. Liu serves as the director, deputy general manager and president of miHoYo. Mr. Liu obtained his bachelor's degree in Information Engineering from Shanghai Jiaotong University in 2009 and master's degrees in Communication and Information Systems and Electrical Computer Engineering from Shanghai Jiaotong University and Georgia Institute of Technology in 2012, respectively. Mr. Liu has been the vice president of the Shanghai Youth Entrepreneurship Association (上海市青年創業協會) for a four-year term since May 2019.

Independent non-executive Directors

Mr. Pei Dapeng (裴大鵬), aged 44, is our independent non-executive Director. Mr. Pei has also been an independent director of X.D. Network since October 2017. Mr. Pei has extensive industry experience in E-commerce and network technology. In addition to his positions in our Group, Mr. Pei has been the chairman of the board of directors and chief executive officer in Shopex Software Co., Ltd. (商派軟件有限公司) since March 2019. Mr. Pei also served as the general manager in Shopex Software Co., Ltd. (商派軟件有限公司) from June 2017 to February 2019. Mr. Pei served as the general manager in Youliang (Shanghai) Information Technology Co., Ltd. (有量(上海)信息技術有限公司) from April 2015 to May 2017. Mr. Pei served as the general manager in Shanghai Youliang Marketing Co., Ltd. (上海有量市場營銷策劃有限公司) from November 2014 to March 2015. Mr. Pei served as the general manager in Ku Mei (Shanghai) Information Technology Co., Ltd. (酷美(上海)信息技術有限公司) from January 2009 to October 2014. Mr. Pei served as the general manager of Shanghai Shopex Network Technology Co., Ltd. (上海商派網絡科技有限公司) from November 2006 to December 2008. Mr. Pei obtained his bachelor's degree in Informatics from East China Normal University in China in July 2000.

Mr. Xin Quandong (辛全東), aged 48, is our independent non-executive Director. Mr. Xin also serves as an independent director of X.D. Network since October 2017. Mr. Xin has extensive experience in accounting and investment industries. In addition to his positions in our Group, Mr. Xin has been founding partner and chief executive officer of Shanghai Honggu Equity Investment Fund (上海紅榖股權投資基金) since August 2015. Before that, Mr. Xin served as the partner and managing director of Shanghai Chengding Equity Investment Fund (上海誠鼎股權投資基金) from May 2010 to July 2015, as chairman and general manager of Shanghai Big Thumb Home Service Co., Ltd. (上海大拇指家庭服務有限公司) from June 2008 to May 2010, as executive vice president of Shanghai East Joy Long Motor Airbag Co., Ltd. (上海東方久樂汽車安全氣囊股份有限公司) from December 2006 to July 2007, as chief financial officer and deputy general manager of Shanghai Huabo Investment Consulting Co., Ltd. (上海華博投資諮詢有限公司) from April 2003 to December 2006, as investment manager of Shanghai Keyuan Investment Consulting Co., Ltd. (上海科遠投資諮詢有限公司) from April 2001 to November 2012. Mr. Xin obtained his bachelor's degree in accounting from Shanghai University of Finance and Economics in China in July 1996. Mr. Xin has been accredited as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since 1998 and has obtained the fund practice qualification from Asset Management Association of China in 2017.

Ms. Liu Qianli (劉千里), aged 46, is our independent non-executive Director. Ms. Liu has over 18 years of experience in investment banking and corporate finance. Ms. Liu served as a senior associate in The Parthenon Group (Strategic Management Consulting) from 1997 to 2000; a vice president in TRULY CUSTOM CONSTRUCTION, INC. (E-Commerce) from 2000 to 2001; a vice president of investment banking department in Lehman Brothers in Hong Kong and an associate of investment banking department in Lehman Brothers in New York from July 2003 to June 2007; the chief financial officer of MainOne Information Technology Company Ltd., an information technology company, from June 2007 to August 2008; the chief financial officer of China Edu Corp., an education services provider in China from October 2008 to November 2010; the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Code: FENG), from December 2010 to July 2013; an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 2100) from March 2014 to date; an independent non-executive director of Feiyu Technology International Company Ltd., a leisure mobile game developer listed on the Main Board of the Stock Exchange (Stock Code: 1022) from November 2014 to date; and Ms. Liu serves as the Assistant Head of School, Business of Keystone Academy from 2020 to date. Ms. Liu obtained her bachelor's degree in arts from Dartmouth College in 1997 and her master's degree in Business Administration from the Massachusetts Institute of Technology Sloan School of Management in 2003.

SENIOR MANAGEMENT

For biographical details of Mr. Huang Yimeng, Mr. Dai Yunjie and Mr. Fan Shuyang, who form part of our senior management team, please refer to "— Directors — Executive Directors" in this section of this annual report.

Mr. Gong Rui (龔睿), aged 36, has been appointed as the Chief Financial Officer of our Company since June 3, 2019 and is primarily responsible for the overall finance, investments, and strategic development of our Group. Mr. Gong has been the chief financial officer of X.D. Network since November 2018. Mr. Gong has 12 years of experience in the investment banking and financial management industries. Prior to joining our Group, Mr. Gong served as associate vice president and vice president in China Culture Industry Investment Fund Management Co., Ltd. (中國文化產業投資基金管理有限公司) from September 2014 to November 2018, an associate in BOCI Asia Limited from July 2012 to September 2014, and an analyst in BOCI Asia Limited from June 2010 to June 2012 and BOCI Securities Limited from December 2009 to May 2010. Mr. Gong obtained his bachelor's degree in science in Peking University in China in July 2008 and his master's degree in science in Boston University in the United States in September 2009.

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CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group is committed to implementing high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance the corporate value as well as the responsibility commitments. The Company has adopted the CG Code as its own code of corporate governance. Saved for the deviation as disclosed under the section headed "Chairman and Chief Executive Officer" below, the Company has complied with all applicable code provisions of the CG Code during the year ended December 31, 2021. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD OF DIRECTORS

Responsibilities

The Board takes the responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, nomination and appointment of senior management, and monitor the performance of the senior management.

All Directors shall at all times ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders.

Board Composition

Executive Directors
Mr. Huang Yimeng *(Chairman of the Board and Chief Executive Officer)*
Mr. Dai Yunjie
Mr. Shen Sheng (retired on June 25, 2021)
Mr. Fan Shuyang

Non-executive Directors
Mr. Tong Weiliang (retired on June 25, 2021)
Mr. Liu Wei

Independent Non-executive Directors
Mr. Pei Dapeng
Mr. Xin Quandong
Ms. Liu Qianli

There is no material financial, business, family or other relationship between any members of the Board and the senior mamagement. The biographies of the Directors are set out under the section headed "Directors and Senior Management" in this annual report.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code (which has been re-numbered as code provision C.2.1 of the CG Code since January 1, 2022), the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Huang Yimeng is currently the chairman and chief executive officer of the Company. In view of his substantial contribution to the Group since its establishment and his extensive experience in the game industry, the Board considers that vesting the roles of chairman and chief executive officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long term business strategies and does not impair the balance of power and authority between the Board and the management of the Company. The Board currently comprises three executive directors (including Mr. Huang Yimeng), one non-executive director and three independent non-executive directors and therefore has a fairly strong independence element in its composition.

The Board will continue to review the effectiveness of the corporate governance structure in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

Independent non-executive Directors

The independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. The functions of independent non-executive Directors include bringing an impartial view and judgement on issues of the Company's strategies, performance and control; and scrutinizing the Company's performance and monitoring performance reporting.

During the year ended December 31, 2021, the Board has at all times met the requirements of Rules 3.10(1) and (2) 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.

The Company has received a confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and the Company considers such Directors to be independent.

Directors' training and professional development

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment. The Company will continue to arrange regular seminars to provide the Directors with updates on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge his duty. During the year ended December 31, 2021, the Directors have participated in continuing professional development programmes and provided the Company with records of the training they received to ensure that their contributions to the Board remain informed and relevant.

The table below summarises the participation of each of the Directors in continuous professional development during the year ended December 31, 2021:

Name of Director	Attending Training Courses	Reading Legal and Regulatory Updates and other Reference Materials
Executive Directors		
Mr. Huang Yimeng	√	√
Mr. Dai Yunjie	√	√
Mr. Shen Sheng (retired on June 25, 2021)	√	√
Mr. Fan Shuyang	√	√
Non-executive Directors		
Mr. Tong Weiliang (retired on June 25, 2021)	√	√
Mr. Liu Wei	√	√
Independent Non-executive Directors		
Mr. Pei Dapeng	√	√
Mr. Xin Quandong	√	√
Ms. Liu Qianli	√	√

BOARD DIVERSITY POLICY

We have adopted a diversity policy of the Board which sets out the objectives and provides that all appointments of the members of the Board should be made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective. Our nomination committee will review and assess the composition of the Board and make recommendations to the Board on appointment of members of the Board. Meanwhile, our nomination committee will consider the benefits of all aspects of diversity and seek to achieve Board diversity through the consideration of a number of factors, including without limitation, professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board. Under the current composition of the Board, the Board has a balanced mix of knowledge, skills and experiences, including experiences in games, technology, internet, investment, accounting and financial markets. Directors have a diverse education background including business administration, accounting, automation engineering, electric engineering, computer applications, international finance, informatics.

We recognize that the gender diversity at the Board level can be improved given its current composition of male-majority Directors, we will strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommendation best practices, with the ultimate goal of bringing our Board to gender parity. The Board currently has one female director and will consider increasing the proportion of female directors in the future if suitable candidates are available. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female senior management and potential successors to our Board in a few years' time.

Our nomination committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the CG Code. Our nomination committee will review our diversity policy of the Board on annual basis and to ensure its continued effectiveness.

BOARD MEETINGS

Code Provision A.1.1 of the CG Code (which has been re-numbered as code provision C.5.1 of the CG Code since January 1, 2022) prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication.

The Company has adopted the practice of holding Board meetings regularly. Notice of not less than 14 days is given of all regular Board meetings to provide all Directors with the opportunity to attend and include matters in the agenda. For other committee meetings, reasonable notice is given. The agenda and accompanying board papers are despatched to the Directors or committee members at least three days before meetings to ensure that they have sufficient time to review these documents and be adequately prepared. When the Directors or committee members are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and committee meetings are recorded in detail and include the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors within a reasonable time after the date on which the meeting is held so that they have an opportunity to request amendments.

The Board reserves for its decision on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. The Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. The Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

The table below sets forth the attendance of each of the Directors at the board meetings and annual general meeting:

	Number of meetings attended/held during the Director's term of office	
Name of Director	Board meetings	Annual general meeting
Executive Directors		
Mr. Huang Yimeng	6/6	1/1
Mr. Dai Yunjie	6/6	1/1
Mr. Shen Sheng(retired on June 25, 2021)	4/4	N/A
Mr. Fan Shuyang	6/6	1/1
Non-executive Directors		
Mr. Tong Weiliang(retired on June 25, 2021)	4/4	N/A
Mr. Liu Wei	6/6	1/1
Independent Non-executive Directors		
Mr. Pei Dapeng	6/6	1/1
Mr. Xin Quandong	6/6	1/1
Ms. Liu Qianli	6/6	1/1

During the year ended December 31, 2021, the Chairman has also held a meeting with all independent non-executive Directors without the presence of other Directors.

Appointments, Re-election and Removal of Directors

Each of the executive Directors has entered into a service contract with the Company an initial term of three years commencing from the Date of Prospectus. Either party has the right to give not less than three months' written notice to terminate the agreement.

Each of the non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the date of the respective service contract or until the third annual general meeting of the Company since the date of the respective service contract whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three month's prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the date of the respective appointment letter or until the third annual general meeting of the Company since the respective appointment letter whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the letter of appointment or by either party giving to the other not less than three month's prior notice in writing.

The Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

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

BOARD COMMITTEES

The Board has established four committees, namely Audit Committee, Remuneration and Appraisal Committee, Strategy and Development Committee and Nomination Committee. Each of these committees has specific written terms of reference and is responsible for overseeing particular aspects of the Group's affairs. The chairman of these committees will report their findings and recommendations to the Board after each meeting.

The table below sets forth the attendance of each of the committee members at the Board committees:

	Number of meetings attended/held during the Director's term of office			
Name of Director	Audit Committee	Remuneration and Appraisal Committee	Strategy and Development Committee	Nomination Committee
Mr. Huang Yimeng	N/A	N/A	1/1	1/1
Mr. Dai Yunjie	N/A	1/1	1/1	N/A
Mr. Shen Sheng (retired on June 25, 2021)	N/A	N/A	N/A	N/A
Mr. Tong Weiliang (retired on June 25, 2021)	N/A	N/A	N/A	N/A
Mr. Liu Wei	N/A	N/A	1/1	N/A
Mr. Pei Dapeng	2/2	N/A	1/1	1/1
Mr. Xin Quandong	2/2	1/1	N/A	N/A
Ms. Liu Qianli	2/2	1/1	N/A	1/1

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Xin Quandong (Chairman), Mr. Pei Dapeng and Ms. Liu Qianli.

The main duties of the Audit Committee include the following:

a) being primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; and approving the remuneration and terms of engagement of the external auditor, and considering any questions of its resignation or dismissal;

b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

c) developing and implementing policies on engaging an external auditor to supply non-audit services (for this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally) and reporting to the Board and making recommendations on any matters where action or improvement is needed;

d) discussing with the external auditor the nature and scope of the audit and relevant reporting obligations, and ensuring co-ordination where more than one audit firm is involved before the audit commences;

e) monitoring integrity of the Company's financial statements, annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained therein. In reviewing these statements and reports before submission to the Board, the Audit Committee shall focus particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

  (iii) significant adjustments resulting from audit;

  (iv) the going concern assumptions and any qualifications;

  (v) compliance with accounting standards; and

  (vi) compliance with the Listing Rules and any requirements from the Stock Exchange and legal requirements in relation to financial reporting;

f) Regarding (e) above:

  (i) liaising with the Board and the Senior Management;

  (ii) meeting at least twice a year with the Company's auditors; and

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

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

h) discussing the risk management and internal control systems with the Senior Management, ensuring that the Senior Management has performed their duties to establish effective systems and to review annually the effectiveness, adequacy and appropriateness of those systems. This review should include adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

i) conducting research on major investigation findings of risk management and internal control matters and the Senior Management's response to these findings on its own initiative or as delegated by the Board;

j) ensuring co-ordination between the internal and external auditors, ensuring that the internal audit function is adequately resourced to operate and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;

k) reviewing the Company's financial and accounting policies and practices;

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

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

n) reporting to the Board on the matters in these Terms;

o) reviewing the following arrangements set by the Company: employees of the Company can raise concerns about possible improprieties in financial reporting, internal control or other matters in confidence; and ensuring that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions by the Company;

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

q) formulating a whistle-blowing policy and system by the Audit Committee to allow employees and those who have dealings with the issuer (such as customers and suppliers) to raise, in confidence, any concern regarding any possible improprieties about the issuer to the Audit Committee;

r) to identify the environmental, social and governance matters that are relevant and material to the operations of the Group and/or that affect shareholders and other key stakeholders (the "Key ESG Issues"), which shall include environmental and social aspects as stated in Appendix 27 to the Listing Rules;

s) to review the Company's vision, strategy, framework, principles and policies in relation to Key ESG Issues, make relevant recommendations to the Board;

t) to review and monitor the Company's policies, practices and performance in relation to Key ESG Issues to ensure compliance with legal and regulatory requirements and that they are appropriate in the context of the size, business nature and scope of the Company;

u) to monitor the key performance indicators and standards set and performance achieved on Key ESG Issues by the Company;

v) to assess, review, report and make recommendations, once (1) a year or as and when required, to the Board on the effectiveness of the Company's policies, practices and performance in respect of Key ESG Issues;

w) to identify and engage stakeholders to understand and respond to their views by appropriate means;

x) to review disclosure on environmental, social and governance matters of the Company whether by way of inclusion in the Company's annual report or a separate report in compliance with Rule 13.91 of the Listing Rules and Appendix 27 to the Listing Rules; and

y) conducting any other matters related to the Audit Committee in accordance with the instructions from the Board from time to time.

During the year ended December 31, 2021, the Audit Committee had performed the followings:

— reviewed the audited financial statements for the year ended December 31, 2020;

— reviewed the unaudited interim financial statements for the six months ended June 30, 2021;

— reviewed and approved the audit service memorandum presented by the external auditor;

— discussed with the management and the external auditor on the issues concerning accounting policies and practices which may affect the Group, along with financial reporting matters;

— reviewed the risk management and internal control systems; and

— made recommendations to the Board for re-appointment of the external auditor.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee consists of one executive Director, namely Mr. Dai Yunjie and two independent non-executive Directors, namely Ms. Liu Qianli (Chairman) and Mr. Xin Quandong.

The main duties of the Remuneration and Appraisal Committee include the following:

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

b) being responsible for either (i) determining, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management (this should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment);

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

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

e) reviewing and approving the Senior Management's remuneration proposals with reference to the Board's corporate goals and objectives;

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

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

h) ensuring that no Director or any of his associates is involved in deciding his own remuneration;

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

j) reviewing the Group's policy on expense reimbursements for the Directors and Senior Management.

During the year ended December 31, 2021, the Remuneration and Appraisal Committee had performed the followings:

— reviewed the effectiveness of the remuneration policy; and

— reviewed the remuneration package of the executive Directors and senior management.

Remuneration of Directors and Senior Management

Details of the Directors' emoluments are set out in note 7 to the consolidated financial statements.

For the year ended December 31, 2021, the emoluments of senior management team fell within the following bands:

Emolument bands (in HKD)	**Number of individuals**
HKD0-HKD1,000,000	**0**
HKD1,000,001–HKD2,000,000	**1**
HKD2,000,001–HKD5,000,000	**0**
HKD5,000,001–HKD10,000,000	**3**
Total	**4**

Strategy and Development Committee

The Strategy and Development Committee consists of two executive Directors, namely Mr. Huang Yimeng (Chairman) and Mr. Dai Yunjie, one non-executive Director, namely Mr. Liu Wei and one independent non-executive Director, namely Mr. Pei Dapeng.

The main duties of the Strategy and Development Committee include the following:

a) researching and making recommendations to the Board on the long-term development strategies and plans of the Company;

b) researching and making recommendations to the Board on the major financing plans of the Company and other major strategic issues influencing the development of the Company; and

c) reviewing the implementation of the above matters.

During the year ended December 31, 2021, the Strategy and Development Committee had reviewed strategies concerning business development and plans relating to the daily operations of the Group.

Nomination Committee

The Nomination Committee consists of one executive Director, namely Mr. Huang Yimeng, and two independent non-executive Directors, namely Mr. Pei Dapeng (Chairman) and Ms. Liu Qianli.

The main duties of the Nomination Committee include the following:

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

b) making recommendations to the Board on the appointment or re-appointment of Directors and succession plans for Directors, in particular the chairman and the chief executive officer. The Nomination Committee shall make recommendations on appointment of Directors with due regard to the diversity policy of the Company and in accordance with the challenges and opportunities faced by the Company;

c) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;

d) assessing the independence of independent non-executive Directors;

e) before making any appointment recommendations to the Board, evaluating the balance of Directors based on (including but not limited to) gender, age, cultural and educational background or professional experience, and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee shall:

(i) use open advertising or the services of external advisors to facilitate the search;

(ii) consider candidates from a wide range of backgrounds; and

(iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;

f) reviewing annually the time required from the non-executive Directors. Performance evaluations should be used to assess whether the non-executive Directors are spending enough time in fulfilling their duties; and

g) ensuring that the Directors receive a formal letter of appointment from the Board setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

During the year ended December 31, 2021, the Nomination Committee had performed the followings:

— reviewed the structure, size and composition of the Board;

— made recommendations to the Board on the re-election of Directors;

— reviewed the profile of the potential candidates to assess suitability in accordance with Nomination Policy and the objective criteria, with due regard for the benefits of diversity, as set out under the Board Diversity Policy and made recommendation to the Board;

— accessed the independence of the independent non-executive Directors; and

— reviewed the time commitments of the non-executive Directors.

Nomination Policy for Directorship

In light of Article 16 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall not be less than two. Subject to the provisions of these Articles and the Companies Law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

The Company may by ordinary resolution at any time remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead. Any person so elected shall hold office during such time only as the Director in whose place he is elected would have held the same if he had not been removed.

Information and Documents from Candidate

The nominated candidate shall provide the following to the Nomination Committee for its consideration: (a) a curriculum vitae containing his/her relevant personal information and contact details, academic and (if applicable) professional qualifications, work experience, employment history, current directorships (if any) and other information required to be disclosed under Rule 13.51(2) of the Listing Rules; (b) his/her written consent to be elected as a director of the Company; (c) other information, declarations, undertakings and/or confirmations as required by the Listing Rules; (d) other written consents (including without limitation his/her written consent to the publication of his/her personal data so provided) and other information as reasonably required by the Nomination Committee; and (e) if he/she is nominated to be appointed as an independent non-executive director of the Company, an independence confirmation and any other documents as required by the Listing Rules. The Nomination Committee may request the nominated candidate to provide additional information and documents as the Nomination Committee may consider appropriate.

Nomination Committee's Role and its Selection Process and Criteria

The Nomination Committee shall review the said information and documents provided by the nominated candidate and conduct the following process (in accordance with the following criteria) with a view to assessing and evaluating whether such candidate is suitably qualified to be appointed as a director of the Company before making recommendations to the Board:

1. to assess such candidate's qualifications, skills, knowledge, ability and experience and also potential time commitment and attention to perform director's duties under common law, legislation and applicable rules, regulations and guidance (including without limitation the Listing Rules and the "Guidance for Boards and Directors" published by the Stock Exchange (the "Guidance for Boards")), with reference to the corresponding professional knowledge and industry experience which may be relevant to the Company and also the potential contributions that such candidate could bring to the Board (including potential contributions in terms of qualifications, skills, experience, independence and gender diversity);

2. in addition to and without prejudice to Paragraph 1 above, to assess such candidate's personal ethics, integrity and reputation (including without limitation to conduct appropriate background checks and other verification processes against such candidate);

3. with reference to the Company's Board diversity policy (as adopted and amended by the Board from time to time), to take into account the then current structure, size and composition (including without limitation the balancing of the skills, knowledge, ability, experience and diversity of perspectives appropriate to the requirements of the Company's business) of the Board and the Company's corporate strategy, with due regard for the benefits of the appropriate diversity of the Board and also such candidate's potential contributions thereto;

4. to consider board succession planning considerations and the long-term needs of the Company;

5. in case of a candidate for an independent non-executive director of the Company, to assess: (i) the independence of such candidate with reference to, among other things, the independence criteria as set out in Rule 3.13 of the Listing Rules; and (ii) the guidance and requirements relating to independent non-executive directors set out in Code Provision B.3.4 of Appendix 14 to the Listing Rules and in the Guidance for Boards; and

6. to consider any other factors and matters as the Nomination Committee may consider appropriate.

Board's Decision

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

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with the Listing Rules, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and the management team of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report. During the year ended December 31, 2021, the Board reviewed and determined the policy for the corporate governance of the Company.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Company's risk management and internal control system and reporting the results to the Audit Committee. The Group will review the effectiveness of its risk management and internal control systems at least once every year through the Audit Committee. The General Office of the Company coordinates the detailed work of internal control and takes charge of sorting out and optimizing business processes and the management mechanism, as well as conducting evaluation on the effectiveness of internal control. In addition to the internal control and internal audit functions, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks.

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

The Board considers that the Group's risk management and internal control systems are adequate and effective for the year ended December 31, 2021.

Business Risk

The Group conducts business globally and faces business risks includes reputation risks, investment and acquisition risks, taxation risks and corporate responsibility and sustainability risks. The Board meets regularly and reviews the investment and expansion strategies, business plan, financial results, and key performance indicators of the Group to ensure that the business risks are controlled and managed, and potential risks can be identified.

Financial Risk

The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks, currency risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's internal financial reporting department on a monthly basis.

Compliance Risk

The Group has adopted internal procedures to monitor the Group's compliance risk to ensure that the Group's compliance with the laws and regulations in regions which the Group conducts business. In addition, the Group from time to time engages consulting firms and professional advisers to keep the Group updated with the latest development in the regulatory environments.

Inside Information and Internal Control

The Group attaches utmost importance to the proper handling and dissemination of inside information. Internal policies are put in place to ensure that inside information is adequately controlled. To ensure the confidentiality and the timely disclosure of inside information, all employees are provided with learning materials and guidelines regarding the handling and dissemination of inside information on a yearly basis. IT system controls are implemented to ensure the access to sensitive data is restricted to authorized personnel only.

Operational Risk

The Group has adopted procedures to manage its operational risk exposures, such as human resources risks and IT governance risks. The Group monitors the overall employee turnover rate, degree of satisfaction, and IT system status on a monthly basis, and adopts countermeasures if any risk indicators arise.

DIVIDEND POLICY

The declaration and payment of dividends shall be determined at the sole discretion of the Board and subject to the Articles of Association and all applicable laws and regulations. The Company does not have any pre-determined dividend payout ratio. Any dividends the Company pays will be determined at the absolute discretion of the Board, taking into account factors including the Company's actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that the Board deems to be appropriate. The Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by the Board.

AUDITOR'S REMUNERATION

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

	HKD
Audit service	6,867,469.88
Non-audit service[1]	3,821,140.77
Total	10,688,610.65

Note:

[1] The non-audit services conducted by the Auditor mainly include M&A advisory service, tax advisory service, ESOP advisory service, IT system review service and ESG report service.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. All Directors confirmed that, having made specific enquiry with all Directors, they have complied with the required standards set out in the Model Code regarding directors' securities transactions during the year ended December 31, 2021.

JOINT COMPANY SECRETARIES

Mr. Fan Shuyang and Mr. Yim Lok Kwan of SWCS Corporate Services Group (Hong Kong) Limited (a company secretarial service provider) have been appointed as the Company's joint company secretaries. They are responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. The primary contact person of Mr. Yim Lok Kwan at the Company is Mr. Fan Shuyang, the executive Director and joint company secretary of the Company.

For the year ended December 31, 2021, Mr. Fan Shuyang and Mr. Yim Lok Kwan have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Article 12.3 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of two or more Shareholders 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. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within three 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, such meeting shall be held within three months after the deposit of such requisition, 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.

Putting forward proposals at general meeting

There are no provisions under the Articles of Association regarding procedures for shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Address: A1, 700 Wanrong Road, Shanghai, China or 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong
(For the attention of the Board of Directors/Company Secretary)
Email: ir@xd.com

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a shareholders communication policy with a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at 2400.hk and the Stock Exchange. The Board has reviewed the shareholder communication policy and confirmed its effectiveness.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the Reporting Period.

06

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

XD Inc. hereby issues the 2021 Environmental, Social and Governance ("ESG") Report of the Group to demonstrate the Group's concept and practice for sustainable development and social responsibility to its stakeholders from both environmental and social areas. For detailed corporate governance related information of the Group, please refer to the Corporate Governance Report of the year.

Reporting Scope

The ESG report covers the Company and its subsidiaries, including the Group's main business (game development and operation, game distribution, game community and platform information service, etc.). The reporting period for this report is from 1 January 2021 to 31 December 2021. (the "reporting period").

Reference and Principles

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") set out in Appendix 27 to the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*. This report is in compliance with the disclosure requirement of "comply or explain", and inapplicable disclosure rules have been interpreted. This report is prepared in accordance with the following Reporting Principles:

- **Materiality:** The Group determines material ESG issues by stakeholder engagement and materiality assessment which have been disclosed in the ESG report.

- **Quantitative:** Information on the standards, methodologies and source of conversion factors used for the reporting of emission and energy consumption has been disclosed in the ESG report.

- **Consistency:** The ESG report uses consistent methodologies with that of 2020 to ensure comparability of information.

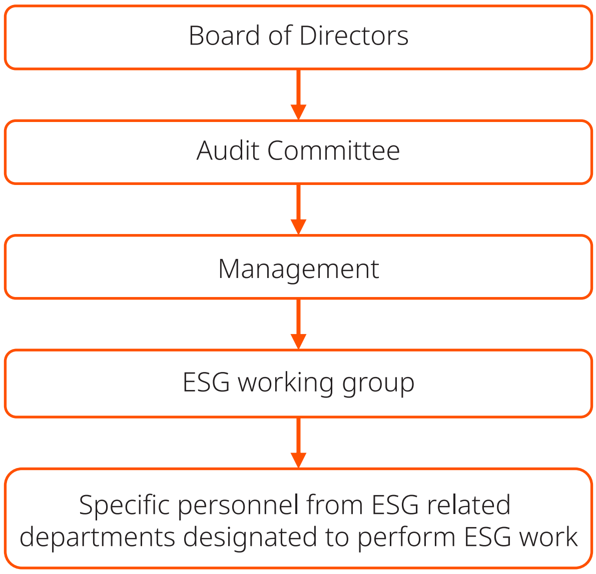
GOVERNANCE

ESG Strategy and Organizational Structure

We continue to deepen the construction of its internal ESG management system and attaches great importance to ESG risk management. The Board of Directors of the Group (the "Board") is the highest decision-maker of ESG management in the Group. The Board overseas the Group's ESG issues and future development and takes full responsibility for the Group's ESG strategy and reporting. The Group also published the *Terms of Reference for Audit Committee*, which clarified the responsibilities of the Audit Committee in supervising the Company's environmental, social and governance issues. For specific responsibilities, please refer to the Corporate Governance Report of the year.

The management of the Group arranges the ESG working group to carry out relevant work according to the outlook, strategies, framework, principles, and policies related to material ESG issues formulated by the Audit Committee. The management reports ESG-related risks and opportunities, policies, practices and performance related to material ESG issues to the Audit Committee, and provides the Audit Committee with ESG performance and annual ESG report of the Group.

The Group established the ESG working group to comprehensively carry out ESG work. The ESG working group involves the head of each department, and designated special staff to carry out daily ESG work and prepare annual ESG report. The ESG working group reports to the management on the daily ESG performance and the progress of annual ESG report.



The Group's ESG organisational structure

Stakeholders Engagement

The Group actively communicates with core stakeholders and established diverse and smooth communication channels to learn the opinions and suggestions from stakeholders on the Group's sustainable development performance and development strategy.

Stakeholders	Expectations and requirements	Communications channels
Government and regulators	• Implementing the policies and regulatory rules of the government • Operating by the law • Paying tax according to the law • Advocating employment	• Daily management • Work meeting • Supervision and inspection
Shareholders	• Earning returns on investment • The status of the development of corporate business • Corporate governance • Risk management and control	• General meetings • Annual reports, interim reports and announcements • Investor relation activities • Company website
Players	• Providing high quality games and services • Privacy protection • Anti-cheating and fair gaming	• Customer service online communication • Improvement in client complaint response mechanism • Social media communication
Employees	• Salaries and welfare • Healthy and safe working environment • Fair opportunity and development	• Sound compensation management • Smooth internal communication channel • Complete staff training system • Healthy and safe working environment
Society	• Enhancing public benefit • Facilitating the harmonious development of the community	• Participating in social charity
Environmental organizations	• Reduce emissions • Energy conservation • Climate change	• Waste classification • Green office

Materiality Assessment

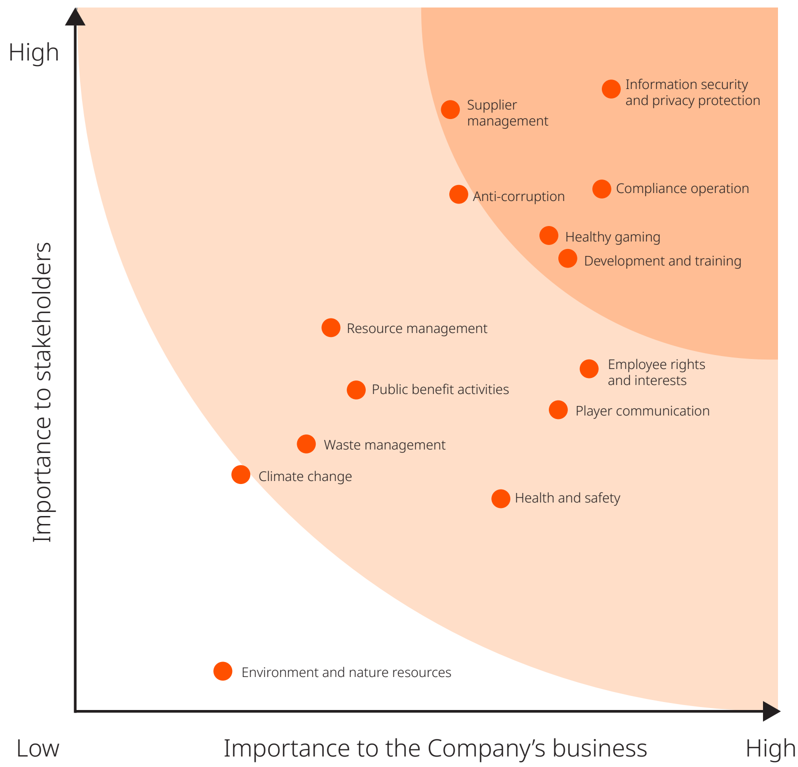
In order to assess the Group's ESG risks and material ESG issues, as well as understand and respond to the expectations of various stakeholders on the Group's ESG work. We have conducted a materiality assessment through questionnaire to internal stakeholders, consultation with third-party professional institutions and reference to standards relating to social responsibilities, and details of the assessment are as follows:

Step 1 — Identify issues: Identify 14 ESG issues according to the requirements of ESG Reporting Guide.

Step 2 — Questionnaires survey: Identify significant internal and external stakeholders of the Group, and invite them to evaluate the importance of the Group's ESG issues through a questionnaire survey to understand their opinions and suggestions.

Step 3 — Confirm results: Summarise based on the questionnaires collected, analyse issues from "Importance to the Company's business" and "Importance to stakeholders" to generate the materiality matrix, and determine the Group's material ESG issues combining management's opinions and suggestions from experts.

During the preparation of this ESG report, we have reviewed and reassessed all ESG issues through internal interviews & survey and external consultation, and adjusted the materiality of related issues based on the assessment results.



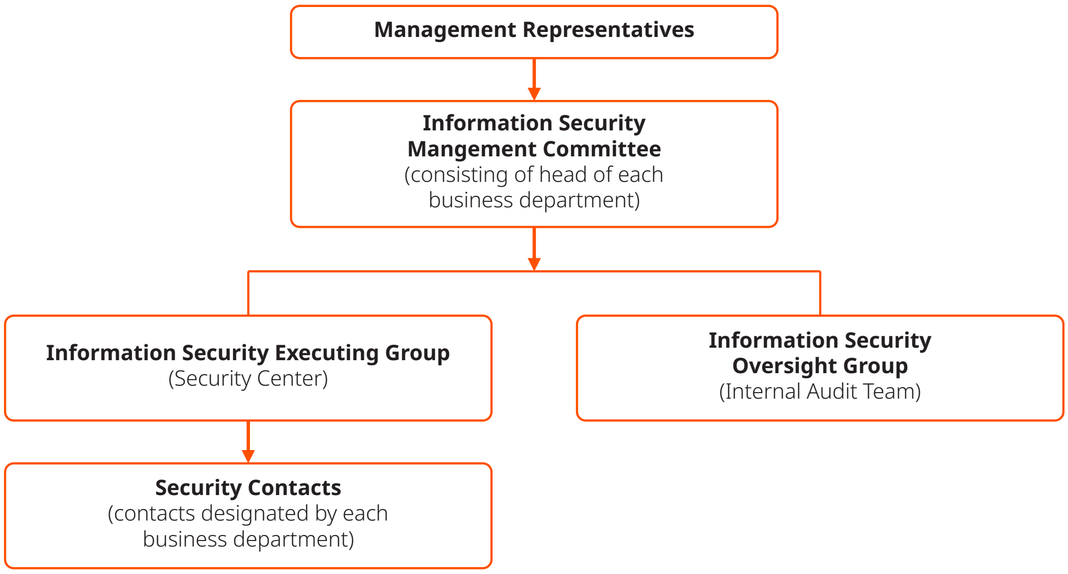
Materiality Assessment Results

STABLE OPERATION

Information Security and Privacy Protection

We strictly comply with the *Cybersecurity Law of the People's Republic of China*, the *Provisions on Protection of Personal Information of Telecommunications and Internet Users*, the *Administrative Measures for Internet Information Services* and other laws and regulations. We formulated the *Information Security Policy*, the *Regulations on Management of Data Backup* and other internal policies to continuously improve the information security, strengthen the network information security capabilities and reduce the risk of information leakage and loss.

In line with the information security policy of "putting safety first, focusing on comprehensive prevention, and making continuous improvement", we improved the organizational structure of information security management system in the reporting period and set up the information security committee. Meanwhile, in compliance with requirements of ISO27001 information security standard system, we optimized our information security management system and implemented daily management on information security, including risk management, internal review, system effectiveness test and personal safety management etc. We have got the certification of national classified (class III) protection of information security. Our computer rooms conform to the national standards of the *Code for Design of Data Centres (GB50174–2017)* and *Code for Construction and Acceptance of Data Centre Infrastructure (GB50462–2015)*. Special personnel are assigned to be responsible for the daily maintenance, monitoring, alarm and fault handling of the data centre, so as to protect the information security of users from the perspective of hardware and facilities.



Organizational structure of information security management system

Furthermore, we also focus on moving up the ladder of overall information security of the Group and thus establish a series of information security management rules & regulations, such as information security learning mechanism at employee orientation, security management mechanism for third-party service, approval of data use, data masking mechanism, revoke mechanism for separated employees and security compliance inspection mechanism for online services. In 2021, we released *Specification for Employee Information Security Management* to regulate behaviors of employees in the Group and raise their risk awareness in daily work, and protect information security of the Group and our clients.

In 2021, in order to provide better experience of information security for players, we developed and deployed an automated security penetration test platform and WAF security platform to optimize risk management at all nodes of data life cycle, such as express rules and user authorization during acquisition of personal sensitive data, encryption and integrity check during transmission, backup, recovery exercise, access control, encryption and retention of network logs during data storage, authorization approval, data masking, watermarking and interface output restriction during data processing.

To ensure the security of users' and players' personal data and protection of their privacy, we updated the Privacy Policy of XD and TapTap during the reporting period and released *Protection Rules for Personal Information of Children on TapTap* and *Compliance Operation Guidance for Personal Information Collection and Use on App*, in which the ways we handle, manage and protect player information are introduced, as well as management approaches and operation procedures for collection, storage, use, transfer and disclosure of private data and entity rights.

Compliance Operation

- **Advertising management**

In accordance with the requirements of laws and regulations such as the *Advertising Law of the People's Republic of China* and the *Interim Measures for the Administration of Internet Advertising*, we formulated the *Advertisement Management Policy* to strictly control the release of marketing information through various channels, and thus ensure the compliance of publicity, promotion and advertising releases.

The daily advertising materials are reviewed by the marketing department, and the uncertain contents such as trivia and miscellaneous doubts are finally reviewed by the legal department and the public relations department before being released to the public, to ensure the legal compliance of the released publicity content, prevent our publicity materials from containing content that may deceive or mislead consumers, so as to effectively protect the rights and interests of users. The legal department and public relations department of the Group regularly carries out seminars or provide marketing and legal publicity trainings through internal tools such as Confluence or Slack for colleagues in marketing department and colleagues in charge of advertising content and marketing, and thus enhance their compliance awareness. In 2021, we updated labelling management specification to set a clear brand image, consolidate integrity of labelling identification and uniformity of brand, and facilitate advertising and marketing activities.

If any third-party partner needs to place advertisements on "TapTap" and other platforms of the Group, the marketing department and the business department of the Group review its relevant qualifications, including business license, product ownership relationship certificate, software copyright certificate, game edition number and others that prove the legitimate authorisation of the products, and then release them on our platforms after confirmation.

Based on the nature of our business, product labelling is not applicable to the Group.

- **Intellectual property rights**

In strict compliance with the *Copyright Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, the *Patent Law of the People's Republic of China*, the *Tort Liability law of People's Republic of China*, the *Measures for the Administration of Internet Domain Names of China*, the *Administrative Measures for Software Products* and other laws and regulations, we formulated the *Intellectual Property Management Policy* to standardise the application, registration, management and protection of patents, trademarks, copyrights and other intellectual property rights, so as to constantly improve the Group's intellectual property management.

The legal department of the Group is responsible for intellectual property management. It is responsible for protecting intellectual property, handling intellectual property-related legal affairs, and regularly organising intellectual property trainings to enhance employees' awareness of intellectual property protection. We also require each subordinate department to appoint an employee to serve as the intellectual property liaison officer, who is responsible for collecting and reporting the intellectual property information of each department, giving feedback and suggestions on their intellectual property work, and implementing intellectual property protection work jointly with the legal department. In addition, we also signed non-disclosure agreements with our employees and business partners to ensure the security of our intellectual property. We also take measures to prevent intellectual property infringement from third-parties, and constantly implement market surveillance. If any potential infringement risk is found, the legal department will set up an urgent working team to investigate the potential infringement, and cease the infringement activities against third parties through legal actions, while protecting the legitimate rights and interests of the Group.

As of 31 December 2021, the Group had a total of 944 trademarks, 15 patents, 168 copyrights of software, 98 copyrights registered artwork, 13 copyrights of musical works, 3 copyrights of written works and 56 other intellectual properties.

Anti-corruption

In accordance with the *Anti-Money Laundering Law of the People's Republic of China*, the *Interim Provisions on Banning Commercial Bribery*, the *Anti-Unfair Competition Law of the People's Republic of China* and other laws and regulations, the Group formulated policies such as *the Measures and Policy on Anti-money Laundering and Anti-terrorist* and the *Anti-fraud Procedures and Control Manual* to prohibit bribery, extortion, fraud, money laundering, etc. The Group also, based on the Employee Handbook, requires our employees not to solicit or accept any benefits from customers or related parties under any circumstance, and forbids our employees to take kickbacks and commissions, embezzle funds, etc. In addition, in order to eliminate the possible money-laundering risks caused by offline transactions of virtual goods, the Group does not set up functions such as exchange of game currency, props and account number for cash, and cash return in all game products operated by the Group.

The Audit Committee of the Group provides a unified whistle-blowing e-mail (accusation@xd.com) to accept complaints or reports about any alleged corruption and violation of the Group's interests. The Internal Audit Department of the Group is responsible for real-time tracking and monitoring of fraud practices. It investigates and handles the complaints received, and according to the severity, punishes the relevant responsible persons or hands them over to the judicial organs. Meanwhile, we have introduced the administrative measures for whistleblowers protection in the *Anti-fraud Procedures and Control Manual* to prohibit all forms of retaliation and protect the rights & interests of whistleblowers. We also signed anti-commercial bribery clauses with suppliers to eliminate any forms of commercial bribery, stipulating that we would completely suspend the cooperation relationship with suppliers if there were any violations.

The Group launches integrity education and training covering all employees and directors at least once a year to increase their anti-corruption awareness. In December 2021, the Group launched a training campaign on anti-corruption education, covering all employees and directors of the Group. The legal department of the Group focused on significant anti-commercial bribery and anti-corruption cases to explain the connotation, harms, forms and legal responsibilities of commercial bribery, and proposed corresponding governance advice. Through the combination of theory and practice, the principles and legal regulations of anti-commercial bribery and anti-corruption were fully publicized to all employees and directors.

During the reporting period, there is no concluded legal cases regarding corrupt practices brought against the Group or our employees.

Healthy Gaming

We strictly comply with the *Cybersecurity Law of the People's Republic of China, Provisions on the Administration of Account Names of Internet Users, Provisions on the Administration of Internet User Public Account Information Services,* and *Notice on Preventing Minors from Indulging in Online Games and other laws and regulations*. We established a fully-fledged game anti-addiction system, and formulated platform management regulations such as the *TapTap Community Management Regulations* to promote our healthy online game culture and to protect the physical and mental health of players, while providing series of high quality game products.

In October 2021, in response to requirements in the *Notice on Implementation of* "*Guidance for Setting Youth Mode on Shanghai Network Platforms (trial version)*" issued by Office of Shanghai Cyberspace Affairs Commission, we launched youth mode on the TapTap platform. Through building the "Youth Mode" portal and exclusive content pool of "Youth Mode" on the platform, we help monitor addiction and consumption behaviours of juvenile in games, give priority to games concerning knowledge, application and science, and show youth users high-quality games in a more preferable and concentrated way, so as to create a healthier and more civilized environment for games and entertainment.

For our game products, we have adopted the following measures to protect the physical and mental health of the under-age players from being harmed:

- All users are required to complete real-name registration, and the gaming time set for each user under the guest experience mode is limited to one hour every 15 days;
- A gaming time recording mechanism is in place to limit the gaming time for underage players to 3 hours on holidays and 1.5 hours on other days, and deny their access to our games from 10 p.m. to 8 a.m. the next day;
- The charging system set restrictions for the underage users. It limits the amount of one-time payment and total payment for one month;
- An AI prohibited word interception system is embedded in the games, learning new words and upgrading its word database in real time to intercept sensitive content.

Due to our business characteristics, KPI B6.1 "Percentage of total products sold or shipped subject to recalls for safety and health reasons" and KPI B6.4 "Description of quality assurance process and recall procedures" are not applicable to the Group.

Player Communication

In accordance with the laws and regulations such as *the Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, etc., we formulated and implemented policies such as the *Processes for Customer Service Complaints* and the *Operational Specifications on Satisfaction Survey*. We listen to the players' demands, and collect their opinions in a timely manner to better fulfil the promise to players and protect the legitimate rights and interests of consumers.

We attach great importance to the players' gaming experience and thus hired an external specialised customer service team to provide multilingual customer services. Our players can obtain our customer service and technical support through online messaging tools, online forums, customer service hotline, email and our 24/7 game customer service system. We provide services to customers via xiaoneng.cn, an intelligent customer service system, formulate the *Xiaoneng Service Specifications* to offer guidance to customer service staff, and invite players to participate in a satisfaction survey before the end of each service.

Our customer service representatives cooperated are responsible for receiving, recording and managing complaints, summarising the contents of complaints (such as charging, server exception and punishment dissatisfaction) in a timely manner, and coordinating with relevant internal departments of the company to handle these complaints. We conduct after-sales feedback collection and satisfaction survey after the complaints are resolved, and regularly analyses the statistical complaint data to improve our service quality.

To address the customer complaints such as bureaucratic procedures and long terms for refund, we made a series of improvements in 2021. We set up a special customer service position to deal with refund and streamline the refund flow. As a result, customer service response efficiency and refund efficiency are greatly improved, and player complaints caused by refund are noticeably reduced.

During the reporting period, we continued to respond to players' demands through multiple channels such as hotline, email and forum, among which, a total of 71 complaints received were about users' dissatisfaction arising from our work, and the response rate and the handling rate were both 100%. The score of customer satisfaction were 99.81%.

WORK TOGETHER FOR COMMON PROGRESS

Supplier Management

Our major suppliers include game developers and distribution platforms. We have a standard supplier management mechanism, prefer to work with socially responsible and sustainable partners, improve environmental and social performance with suppliers, so as to manage environmental and social risks in the supply chain.

Our suppliers also include those engaged in administrative management, game development, art outsourcing, advertising, electronic equipment, decoration and property management. We formulated some internal policies such as the *General Materials Procurement Policy*, the *Procurement and Warehousing Management Policy*, and the *Arts Suppliers Management Policy*, which regulate the whole life-cycle management process for suppliers related to art and administrative management from selection, access, evaluation to exit. In the process of selection and pre-engagement review of suppliers, we comprehensively evaluate their operation condition, business capability, quotation, management level and quality. At the end of each year, we also evaluate the products and services delivered by the suppliers. If the evaluation results are not satisfactory, we will communicate with the suppliers to assist them in correction and improvement, and monitor their progress, so as to promote our win-win cooperation. In the process of cooperation, we are determined to eliminate any form of commercial bribery by suppliers or other violations of laws and regulations, and will completely stop the cooperation relationship in case of violation. If there is any infringement of the Group's interests, the Company will also seriously pursue their legal responsibilities.

During the reporting period, we further standardized the management systems for catering and issued *XD Standards for Management of Catering Services* to manage catering suppliers, guarantee catering operation in office areas and continually improve the overall service and management level of catering suppliers.

In addition, we are committed to working together with suppliers to build a green supply chain and promote a low-carbon economy. Therefore, we reduce the purchase and use of plastic products in the office and catering area, select energy-efficient and environmentally friendly office furniture and encourage employees and suppliers to take part in energy conservation and pollution reduction.

As of 31 December 2021, we had a total of 245 suppliers of art products, including 68 from Shanghai and 177 from other regions, and a total of 154 suppliers of administrative services, including 138 from Shanghai and 16 from other regions.

Industry Participation

We highly value developers and contents, and are committed to making industrial progress and achieving win-win development. Moreover, we actively join industrial associations and participate in activities they organized for deep communications. As at the end of the reporting period, we joined the following associations and undertook the following roles:

Association name	Role
China Audio-video and Digital Publishing Association	Vice director
Shanghai Online Game Association	Vice president
Shanghai Internet Association	Council member
5G Cloud Gaming Industry Alliance	Council member

We organize activities such as TapTap Developers Workshop and China Game Innovation Awards to create an atmosphere of innovation in the industry, provide developers with convenient services based on our advantages of platform to lighten their burden, and take measures from multiple perspectives to support the healthy and rapid development of the game industry.

TapTap Developers Workshop

We have held TapTap Developers Workshop for three years since 2019. The workshop integrated products release, industry communication and business communication, aiming to strengthen TapTap's brand image and expand its influence in the industry. Owing to continuous development and optimization, TapTap Developers Workshop has become an important window for developers to learn about TapTap's long-term, medium-term and short-term plans every year. On the third TapTap Developers Workshop in 2021, we proposed the concept of "Developers Service Centre", through which our internal product managers and technical engineers may provide one-to-one solutions to questions of developers.

The 2021 TapTap Developers Workshop Venue

The First China Game Innovation Awards

In August 2021, the award ceremony for the first China Game Innovation Awards hosted by the Group was held in Shanghai. On the competition, a total of 267 entries were collected for this competition, and our expert review team set 11 awards for 15 works and 8 innovative groups and individuals. In addition to offline exhibition, the competition also provides cash prizes for winners, as well as opportunities for online publicity exposure and industry learning and exchange.

The First China Game Innovation Awards

TapTap Developer Services

To help ease the burden on developers, we have launched a series of TDS (TapTap Developer Services) and provide developers a complete set of game ecological services in terms of development, operation and promotion, as well as help attract more users by improving the player experience, and constantly brought in creators from different fields to enrich our game contents. With the above efforts, we formulate an ecological loop concerning developer, player, creator and TapTap platform, to achieve win-win development of the four parties.

During the reporting period, we joined hands with many companies to build the Anti-online Dark Patterns League and provide developers defense services against DDoS (Distributed Denial of Service) attacks for free via TDS, to remove developers' last barrier before product launching.

Interface of TapTap Developers Centre

Charitable activities

We support the long-term development of the communities where we operate and seek various ways to give back to the society. The Group formulated the Management Measures on Charity and Public Benefits, in which sources and management of public welfare funds, main forms, systems and code of conduct for public welfare activities are stipulated, and periodically organized all employees to participate in various public welfare activities to make humble efforts to the society within our power.

The Group always cares about the children in need. In 2015, the Group established a charity organisation named "XD Touch", which sent materials to "Baby's Home", a non-governmental organisation, improving the living quality of orphans and making them feel the warmth from the society. In 2021, we provided "Baby's Home" with housewarming supplies, labour protection supplies, funding for sick children and other assistance. We also donated school supplies to and organized caring activities for "Shanghai Qingcongquan Autistic Children Training Centre", with a total value of more than RMB8,000.

Donations for "Baby's Home"

CARING FOR EMPLOYEES

Development and Training

With the mission of “creating growth opportunities for employees”, the Group provides training and development opportunities for all employees to help them maximise their potential. We formulated the Training Management Policy and designed 6 types of training courses covering general skills, technology, arts, application, planning and management, so as to help them improve their professional skills and comprehensive working capabilities.

The topics of our training programmes include:

- **New employee orientation:** We carried out this training when new employees join the Company. The main contents include the Company’s history, corporate culture, responsibilities of each department, training mechanism, promotion system, product introduction. It helps new employees understand the Company and quickly integrate into the working atmosphere.

- **XD’s sharing session:** We invite industry experts, scholars or senior mentors from external training institutions to carry out special trainings, so as to improve employees’ skills and comprehensive capabilities.

- **Technical staff training series:** We regularly carry out themed trainings, experience sharing, seminars, etc., including technical modules such as engine, rendering and optimization, to enhance the professional capabilities in research and development of technical staff.

- **Management efficiency improvement training:** We carry out special training for the management, which deepens management personnel’s understanding of corporate culture, hones their management skills, sharpens their communication skills, and thus raises management efficiency.

- **External training:** We organise our employees to participate in external training and studies, which equip employees with professional knowledge and skills relating to their duties and shares the most cutting-edge developments in the industry.

In addition, we have an internal mechanism in place for the selection, training, certification, rating, and incentive of internal trainers. We explore the internal training resources within the Group and encourage employees to share and communicate with each other in the Company as part-time trainers, so as to encourage the accumulation, sharing, and spread of knowledge within the Company, thus upskilling the workforce. During the reporting period, we held the Teachers’ Day activity named “XD Trainers Presentation” and prepared “2021 XD Trainers Wall” to select and reward excellent internal trainers.

During the reporting period, the percentage of employees trained and average training hours of the Group are showed as bellow:

Classification		**Percentage of employees trained**[1]	Average training hours[2]
Gender	Male	**42.2%**	5.2
	Female	**26.7%**	5.6
Employee category	Senior Management	**68.8%**	3.4
	Middle Management	**96.7%**	23.2
	General Staff	**32.0%**	3.8

Interviewer training

During the reporting period, we strengthened the training for HR recruiters and interviewers of each department and developed customized learning courses for interviewers, which cover related knowledge and practical tools such as preparation for an interview, the way to ask questions in an interview and post-interview objective evaluation. The training is designed to help employees improve their interview skills and make right recruitment decisions, thus enabling the development of the Company.

The interviewer training courses

1 Percentage of employees trained = Employees who took part in training/Number of employees*100 Percentage of breakdown for employees in relevant categories = Employees in the specified category who took part in training/Number of employees in the specified category*100

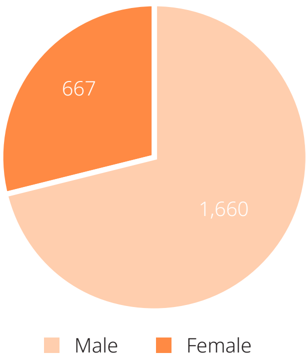
2 Average training hours per employee = Total number of training hours/Total number of employees average training hours for employees in relevant categories = Total number of training hours for employees in the specified category/Number of employees in the specified category

Employees' Rights and Interests

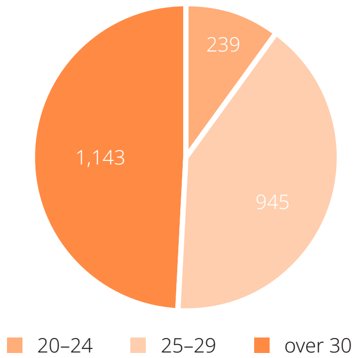
The Group strictly complies with laws and regulations such as the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China*, the *Employment Promotion Law of the Peoples Republic of China*, and the *Contract Law of the People's Republic of China*, etc. We constantly improve our talent management, and established a sound human resource management system, which provide detailed regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

As of 31 December 2021, the Group had a total of 2,327 full-time employees and 0 part-time employee, the total workforce and the employee turnover rate by types are shown as below:

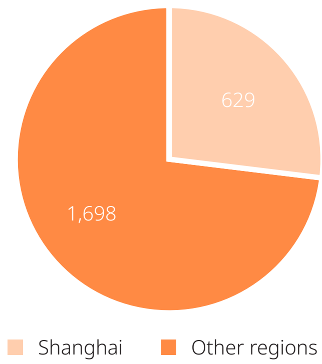
Workforce by gender



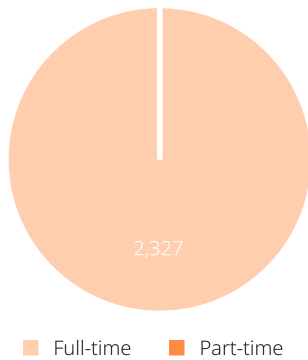
Workforce by age



Workforce by region



Workforce by employment type



Classification		Turnover rate[3]
Gender	Male	**22.5%**
	Female	**21.5%**
Age group	20–24	**18.2%**
	25–29	**24.2%**
	Over 30	**21.4%**
Regions	Shanghai	**20.2%**
	Other regions	**23.0%**

3 Employee turnover rate = number of employees lost during the Reporting period/(number of employees lost during the Reporting period + number of employees at the end of the Reporting Period) * 100%.

- **Recruitment and dismissal**

Linkedin Influence 2020: Answer the New World / 2021, Please Reply
Video snapshot

We adhere to the principle of "fair competition, selecting the best candidates; considering both current development and long-term needs", taking into account whether the ability of a candidate (such as industry knowledge and professional skills) fits the job, as well as whether the candidate's behaviour and comprehensive quality are consistent with the Company's culture and value. We formulated the *Recruitment Management Policy* to guarantee open and fair recruitment. We effectively gather talents by selecting talents through traditional recruitment platforms, social media platforms, potential candidate/talent bank maintenance, internal/HR recommendation, targeted recruitment from peer companies, head-hunting, etc., so as to support the Company's development. In order to further improve the utilisation and quality of the Company's human resources, we formulated the *Reward Policy for Internal Recommendation* to encourage employees to recommend outstanding talents, and revised the *Resignation and Reemployment Policy* during the reporting period to attract suitable talents to be reinstated. During the reporting period, we demonstrated the Company's corporate culture and talent policies to the public by participating in an exclusive LinkedIn interview, in order to attract people with lofty ideals to join our team.

We enter into the Labour Contract with regular employees. Both the *Labour Contract* and the *Employee Handbook* clearly state the conditions and procedures for termination of the contract. Arbitrary dismissal of employees is prohibited. We have no longer required new employees to sign the *Competitive Restriction Agreement* and signed a supplementary agreement with old employees who sign labour contracts with us and cancel the competitive restriction. Any part of our equity incentives will not be cancelled due to the resignation of employees. We also start to put the compliment bonus policy into trial use within the Company and pay the half of their annual salary when employees voluntarily resign. We removed the traditional means of "binding" employees, and proactively improved our management capabilities to retain the best staff, allowing them to take the initiative to do what they want to do, have fun in their work and enjoy the process.

- **Compensation, benefits and promotion**

We have a fair, reasonable and market-competitive compensation system to ensure that every employee receives the compensation and bonus that he or she deserves. Employee compensation consists of basic salary, monthly subsidy, performance bonus, year-end bonus and stock options. In 2021, we provided employees with a supplementary option plan, which allows employees to voluntarily choose to get paid in the form of the Company's stock options, realizing a shared development with the Company.

In addition to contributing to social security schemes such as pensions, medical, maternity, work injury, unemployment insurance and housing funds, we also buy commercial insurance for employees, together with additional subsidies such as marriage and parental benefits. We regularly evaluate the performance of employees, and raise salaries of outstanding employees according to the Company's operating conditions, labour market and other factors.

Based on the features of the game industry and the nature of work, we have set up management sequence, product/technology/creativity sequence, marketing/operational/functional sequence and set different levels in each sequence. We also established promotion paths, including a professional path and a management path. In addition, if a senior specialist turns to the management path and finally finds that he or she lacks capability in management, he or she can return to the professional path, which gives employees the opportunity of "trial and error" to explore their career, in order to fully tap employees' potential and help employees realise their personal ambitions. In 2021, we optimized the employee promotion management system and formulated the *Employee Promotion Management Program* to specify promotion process and review standard, so as to offer excellent employees development opportunities in a fair, just and open manner.

- **Working hours and rest periods**

  According to the Employee Handbook, the Group implements a standard working hour policy. The working time is 5 days a week, 8 hours a day, and 40 hours a week. Subject to the approval of relevant authorities, we also implement a comprehensive working hour policy or irregular working hour policy for certain positions in accordance with relevant national and local regulations. As required by national and local laws and regulations, employees are entitled to statutory paid holidays every year, as well as sick leave, wedding leave, maternity leave, paternity leave, funeral leave, leave for personal affairs, etc.

  We focus on the long-term value of the Company and encourage employees to allocate time by themselves. We pay attention to employees' health and avoid frequent tight schedules. We encourage them to study at a fixed time every day and invest their time to increase knowledge and improve their ability. Some of our projects may need to work overtime when we are in a hurry to catch up the process or in an emergency, but we reject 996 and are not proud of overtime working, let alone considering overtime working as our competitiveness. We have adjusted our annual leave policy to a leave policy with no upper limit. Employees can arrange their leave flexibly and independently without affecting the advancement of individual and teamwork, so that they can fully balance their work and life.

- **Equal opportunity, diversity and anti-discrimination**

  The Group upholds equal and fair employment. Discrimination on grounds of personal characteristics, such as race, gender, colour, age, family background, ethnic tradition, religion, physical fitness and original nationality is not allowed in recruitment. Employees are equally treated in terms of compensation and dismissal, recruitment and promotion, working hours, rest periods, and other benefits and welfare. We highly respect the human rights and take a zero-tolerance approach to any form of discrimination, bullying, harassment, etc. in the workplace. In addition, our suppliers are required to subject to our policies on equal opportunities, diversity and anti-discrimination.

- **Labour standards**

  The Group respects employees' legitimate rights and interests. In accordance with laws and regulations, including the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, the Provisions on the Prohibition of Using Child Labour, etc., the Group stipulates in the Recruitment Management Policy that hiring child labour is prohibited, and requires human resources department to check employees' ID certificate to prohibit child labour. The Group strictly complies with legal working hours. In order to protect the physical and mental health of employees, forced labour, corporal punishment, and confinement are prohibited. If any rules are violated, we will immediately investigate and take steps to improve them in accordance with applicable laws and regulations.

  In 2021, there was no recruitment of child labour or forced labour throughout the Group.

- **Employee Communication**

  We value the mutual communication with employees, and set diversified communication channels to learn about and respond to employees' expectations and opinions in a timely manner. We set up "Exclusive Administrative BP" teams to deal with all administrative affairs in their respective regions divided by departments or buildings. In addition to assisting regional standardized construction and enhancing efficiency of business departments, the teams are responsible for team building, assessing and linking administrative needs of all departments and providing effective feedback to the administrative middle office.

  "Wishing Pool" program

  In 2021, we continued with the "Wishing Pool" program to collect wishes from employees regarding employee benefits, with a focus on snacks and drinks in the "energy supply station". This year, we collected 134 wishes in total. According to the collection of wishes, after comprehensively considering various factors such as product features and procurement costs, we decided to rotate and update the products in the energy supply station every quarter, and synchronously publish the information. In its second year, the "Wishing Pool" program is still favoured by employees as it helps raise employees' happiness at work.

Health and Safety

In pursuit of a safe, healthy and comfortable working environment for employees, the Group strictly complies with relevant laws and regulations, including but not limited to the *Fire Protection Law of the People's Republic of China*, etc. We regularly check the fire-fighting equipment in the office building to ensure safety in the workplace. We organise employees to participate in fire drills in the zone to improve their response and self-rescue capabilities. Due to our business characteristics, employees mainly work in office and they are not exposed to dust, radioactive materials and other toxic and harmful substances at work, so there is no occupational disease. In the past three years, no work-related fatality occurred in the Group. During the reporting period, the number of working days lost due to work-related injuries was 0.

We organize employees to take physical examination every year. During the reporting period, we further improved the physical examination mechanism, and provided services such as subscription of physical examination calendar, self-check on APP, and attachment of on-site department map into physical examination instructions. Moreover, we actively carried out activities to popularize knowledge of physical examination. We also care about mental health of employees. During the reporting period, we launched the EAP (Employee Assistance Program) to assist employees in keeping a positive attitude and improving happiness at work.

Employee physical examination activities

Employee physical examination activities

From September to November 2021, we arranged ex and post examination lectures for employee physical examination to get physical examination checklist, preventive measures for common occupational diseases and daily healthy habits across to employees. In addition, we invited professional doctors to the Company and arranged Q&A session for answering employee's questions of their medical examination reports.

XD EAP (Employee Assistance Program)

In July 2021, we launched the XD EAP (Employee Assistance Program). As an important part of "Employee Health Care Program". XD EAP entrusted a third-party consultant company to provide professional consulting services to employees and their families, with a focus on mental health consultation. We also launched "XD Tree Hollow" EAP to help employees get psychological relief and relaxation during EAP consultation.

XD EAP activities

Due to enduring desk work, employees may suffer from symptoms such as cervical spine disease, muscle soreness and eye fatigue. Therefore, we provide employees with ergonomic desks and chairs, set up resting areas and fitness facilities in the office, and regularly organise employees to participate in corporate team building, community activities, team building for festivals, staff travel and other activities to help employees relax, as well as enhance cohesion and the sense of belonging among employees.

In the context of the normalization of the COVID-19 epidemic, we formulated the COVID-19 Prevention and Control Measures to clarify the epidemic prevention and control measures in the office area. We thoroughly disinfect the office space, and strictly require personnel entering and leaving the company to comply with the three-step epidemic prevention method, that is, personnel entering the company must undergo temperature detection; personnel entering the company must use hand sanitizer to clean their hands; personnel entering the company must wear masks correctly. Meanwhile, we offer epidemic prevention packages to all employees to protect their health and safety during the pandemic.

ENVIRONMENTAL PROTECTION

Based on our business characteristics, the Group's emissions mainly consist of greenhouse gas emissions from electricity consumption in office and non-hazardous waste emissions from office. The Group does not have direct emission sources such as generators and gas hoods, nor does it use fuels such as coal, gasoline or natural gas, which do not involve direct greenhouse gas emissions. The resources used by the Group are mainly electricity and water in office. All our water comes from the municipal water system, so there is no issue in sourcing water. There are no and no anticipated problems with access to water in the operation.

We are fully aware of the importance of protecting the environment and conserving resources for the Company's sustainable development. In strict compliance with related laws & regulations, including the *Environmental Protection Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China*, we positively answer the call of "carbon peak and neutrality" and summarize our key points and objectives of carbon reduction based on the current situation of the Group as follows:

- **Reduction of absolute emissions:** reduce emissions from facilities and assets owned and controlled by us
- **Investment in carbon offsetting projects:** adopt a more transformative approach and select carbon offsetting projects that benefit all mankind, the society and the planet
- **Enhancement of energy efficiency:** find out and assess our facilities with the maximum emissions, identify and invest in solutions that deliver better energy savings and emissions reductions to improve energy efficiency.
- **Promotion of a low-carbon economy:** encourage employees and suppliers to take low-carbon travel tools, reduce wastes from business operations, and strive to transition to a low-carbon economy

Resource Management

We are committed to using resources by reasonable and efficient means and taking various energy saving measures to reduce power and water consumption. During the reporting period, we conducted thorough investigations on our resource consumption and planned to continuously reduce resource consumption in the future, to achieve the goal of a 5% reduction in annual per capita power consumption and per capita water consumption.

We formulated the *Management Policy on Energy Conservation and Environmental Protection* to promote green office, encourage each employee to help reduce emissions, save resources, and thus scaling down our impact on the environment in the daily course of operation.

- The Group relies on natural wind to adjust the temperature in the office. In summer and winter, the office is properly air conditioned to reduce electricity consumption;
- Security personnel check the office equipment every day to make sure that the power is turned off when staff leaves the office. The Group prohibits employees from leaving stand-by equipment powered on for a long time;
- LED lamps are installed in the entire office area to reduce energy consumption;
- Videoconferencing is introduced to replace face-to-face meetings between the headquarters and the subsidiaries, or among employees, to reduce cost and resource consumption of meetings and business travels;
- The Group advocates paperless office, double-sided printing and use of thin and light paper to reduce the use of office paper;
- The Group regularly maintains water supply equipment to avoid leaking;
- The Group installs inductive faucets in the bathroom to reduce water waste.

We have also implemented the concept of low-carbon operation and reduced our carbon footprint through a series of carbon reduction transformation projects, such as photovoltaic power generation, use of new energy vehicles and installation of air conditioning centralized control systems.

Photovoltaic power generation	Install solar photovoltaic panels on the roof of the headquarters building to generate power for building lighting and wall sockets. During 2021, a total of 44,7411.28 kilowatt-hour of power were generated, which was equivalent to the reduction of CO2 emission of 314.75 tons.
New energy vehicles	Select electric buses as the Company's shuttle buses, and use new energy vehicles to provide more comfortable travel experience for employees while practicing the concept of low-carbon travel. 
Air conditioning energy saving system (with spraying system and centralized control system)	Install air conditioning system with spraying system and centralized control system in the headquarters building. The system is automatically turned on in working hours and turned off after work, effectively reducing the power consumption of refrigeration system and labour costs.

Emissions management

Acting upon the *Shanghai Municipal Regulations on Domestic Waste Management*, the Group places special trash bins for four types of rubbish in the workplace, i.e. "residual waste", "household food waste", "recyclable waste", and "hazardous waste", for centralised classification and management of domestic waste. In addition, the Group posts garbage classification labels and arranges cleaning workers to instruct employees. Property management personnel will double check the classification and the waste will be disposed of in a unified manner. After the outbreak of COVID-19, we also set up special trash bins for mask recycling and delivered abandoned masks to specialised institutions for processing, so as to reduce pollution to the environment.

In the future, we will continue to optimize emissions management by raising employees' awareness of emission reduction and recycling of resources, to reduce domestic waste output and by extension, the total waste discharge.

Sorted trash cans

Climate change

The Group is concerned about the impact of climate change trends and evolution of domestic and foreign laws and regulations on its business operations. The Group's ESG working group actively identifies risks and opportunities in climate change and formulates corresponding countermeasures. It is assessed that extreme weather such as typhoons and rainstorms will exert a potential impact on our business operations.

To efficiently and orderly respond to sudden extreme weather disasters, as well as minimize casualties and property losses to the Company, we formulated the *Emergency Plan for Extreme Weather* to specify the administrative measures under extreme weather disasters, such as emergency response administration and its responsibilities, early warning and information reporting, procedures for early warning and information reporting, handling procedures, requirements on handling and supporting measures, so as to mitigate the impact of force majeure on our business operations.

KEY PERFORMANCE INDICATORS

The Group's emissions and resource use data for the reporting period are as follows:

Emissions[1, 2, 3, 4]	**2021**	2020	2019
Scope 2: Energy indirect greenhouse gas emissions (tCO_2 equivalent)[5]	**3,047.71**	1,947.95	1,177.81
Intensity of GHG emission (tCO_2 equivalent per capita)	**1.31**	1.01	1.26

Use of resources[6, 7]	**2021**	2020	2019
Total indirect energy consumption (MWh)[8]	**4,779.62**	2,966.06	1,674.21
Intensity of energy consumption (MWh per capita)	**2.05**	1.54	1.80
Total water consumption (tonne)	**24,128.75**	20,799	15,622.48
Intensity of total water consumption (tonne per capita)	**10.37**	4.48	16.76

Notes:

1. The environmental KPIs mainly covers the office area of Shanghai headquarters of the Group.

2. Due to our business characteristics, the Group did not generate exhaust gas emissions. Domestic waste water was discharged into the municipal pipe network, and the waste water emissions cannot be measured by the Group. Therefore, the KPI A1.1 (The types of emissions and respective emissions data) are not disclosed in the ESG report.

3. The hazardous wastes generated by the Group include a small amount of waste toner cartridges, waste ink cartridges, etc. All the hazardous wastes were recycled by qualified recyclers. Therefore, there is limited impact on the environment and the KPI A1.3 (Total hazardous wastes produced and intensity) is not disclosed in the ESG report.

4. The non-hazardous waste of the Group was domestic waste generated from the office, which was collected by the property management staff and handed over to the municipal hygiene agency for disposal. The waste disposal fee was also included in the property management fee and transferred to the property management company. The wastes produced cannot be measured by the Group. Therefore, KPI A1.4 (Total non-hazardous waste produced and intensity) is not disclosed in the ESG report.

5. Greenhouse gas emissions were all Scope 2: energy indirect emissions, which came from purchased electricity. The emissions are presented in carbon dioxide equivalents. The calculation method and conversion factors are based on the Guidelines for Accounting and Reporting Greenhouse Gas Emissions from China Public Building Operation Units (Enterprises) issued by the National Development and Reform Commission.

6. Due to the business characteristics of the Group, we do not use packaging materials, so KPI A2.5 (Total packaging material used for finished products) is not applicable.

7. Large-scale use of non-renewable energy, forest resources, or impact on biodiversity are not involved in our operation, and according to the materiality assessment A3. The Environment and Natural Resources has low importance to the Group and was not disclosed in the ESG report.

8. Energy consumption consists of indirect energy consumption from purchased electricity and electricity generated by the Group's photovoltaic project, and is presented in MWh (kWh in 000's).

ESG INDICATOR INDEX

Disclosure Requirements		Sections in this Report
Governance Structure		GOVERNANCE
Reporting Principles		Reference and Principles
Reporting Boundary		Reporting Scope
Aspect A1: Emissions	**General Disclosure**	ENVIRONMENTAL PROTECTION • Emissions Management
	A1.1	ENVIRONMENTAL PROTECTION • Emissions Management • Key Performance Indicators
	A1.2	ENVIRONMENTAL PROTECTION • Key Performance Indicators
	A1.3	ENVIRONMENTAL PROTECTION • Key Performance Indicators
	A1.4	ENVIRONMENTAL PROTECTION • Key Performance Indicators
	A1.5	ENVIRONMENTAL PROTECTION • Emissions Management
	A1.6	ENVIRONMENTAL PROTECTION • Emissions Management
Aspect A2: Use of Resources	**General Disclosure**	ENVIRONMENTAL PROTECTION • Resource Management
	A2.1	ENVIRONMENTAL PROTECTION • Key Performance Indicators
	A2.2	ENVIRONMENTAL PROTECTION • Key Performance Indicators
	A2.3	ENVIRONMENTAL PROTECTION • Resource Management
	A2.4	ENVIRONMENTAL PROTECTION • Resource Management
	A2.5	ENVIRONMENTAL PROTECTION • Key Performance Indicators
Aspect A3: The Environment and Natural Resources	**General Disclosure**	ENVIRONMENTAL PROTECTION • Key Performance Indicators
	A3.1	ENVIRONMENTAL PROTECTION • Key Performance Indicators
Aspect A4: Climate Change	**General Disclosure**	ENVIRONMENTAL PROTECTION • Climate Change
	A4.1	ENVIRONMENTAL PROTECTION • Climate Change
Aspect B1: Employment	**General Disclosure**	CARING FOR EMPLOYEES • Employees' Rights and Interests
	B1.1	CARING FOR EMPLOYEES • Employees' Rights and Interests
	B1.2	CARING FOR EMPLOYEES • Employees' Rights and Interests

Disclosure Requirements		Sections in this Report
Aspect B2: Health and Safety	**General Disclosure**	CARING FOR EMPLOYEES • Health and Safety
	B2.1	CARING FOR EMPLOYEES • Health and Safety
	B2.2	CARING FOR EMPLOYEES • Health and Safety
	B2.3	CARING FOR EMPLOYEES • Health and Safety
Aspect B3: Development and Training	**General Disclosure**	CARING FOR EMPLOYEES • Development and Training
	B3.1	CARING FOR EMPLOYEES • Development and Training
	B3.2	CARING FOR EMPLOYEES • Development and Training
Aspect B4: Labour Standards	**General Disclosure**	CARING FOR EMPLOYEES • Employees' Rights and Interests
	B4.1	CARING FOR EMPLOYEES • Employees' Rights and Interests
	B4.2	CARING FOR EMPLOYEES • Employees' Rights and Interests
Aspect B5: Supply Chain Management	**General Disclosure**	WORK TOGETHER FOR COMMON PROGRESS • Supplier Management
	B5.1	WORK TOGETHER FOR COMMON PROGRESS • Supplier Management
	B5.2	WORK TOGETHER FOR COMMON PROGRESS • Supplier Management
	B5.3	WORK TOGETHER FOR COMMON PROGRESS • Supplier Management
	B5.4	WORK TOGETHER FOR COMMON PROGRESS • Supplier Management
Aspect B6: Product Responsibility	**General Disclosure**	STABLE OPERATION
	B6.1	STABLE OPERATION • Healthy Gaming
	B6.2	STABLE OPERATION • Player Communication
	B6.3	STABLE OPERATION • Compliance Operation
	B6.4	STABLE OPERATION • Healthy Gaming
	B6.5	STABLE OPERATION • Information Security and Privacy Protection

Disclosure Requirements		Sections in this Report
Aspect B7: Anti-corruption	**General Disclosure**	STABLE OPERATION • Anti-corruption
	B7.1	STABLE OPERATION • Anti-corruption
	B7.2	STABLE OPERATION • Anti-corruption
	B7.3	STABLE OPERATION • Anti-corruption
Aspect B8: Community Investment	**General Disclosure**	WORK TOGETHER FOR COMMON PROGRESS • Industry Participation • Charitable Activities
	B8.1	WORK TOGETHER FOR COMMON PROGRESS • Industry Participation • Charitable Activities
	B8.2	WORK TOGETHER FOR COMMON PROGRESS • Industry Participation • Charitable Activities

07

DIRECTORS' REPORT

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the development, operation, publishing and distribution of mobile and web games and provision of information services. An analysis of the Group's revenue and operating results for the year ended December 31, 2021 by its principal activities is set out in Management Discussion and Analysis section.

RESULTS

The results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of comprehensive loss of the Group on pages 82 to 83 of this annual report.

FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last five financial years is set out on pages 168 to 169 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group, comprising a discussion and analysis of the Group's performance during the year, particulars of important events affecting the Group that have occurred since the end of the reporting period and an indication of likely future development in the business of the Group are set out in the "Chairman's Letter" on pages 4 to 7 of this annual report. An analysis using financial key performance indicators is set out in the "Management Discussion and Analysis" on pages 8 to 16 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are set out in the "Environmental, Social and Governance Report" on pages 36 to 57 of this annual report. Details regarding the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are also set out in the "Environmental, Social and Governance Report" on pages 36 to 57 and the "Corporate Governance Report" on pages 21 to 35 of this annual report. A description of the principal risks and uncertainties facing the Group is set out in the "Corporate Governance Report" on pages 33 to 34 of this annual report. All such discussions form part of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended December 31, 2021 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2021 are set out in note 25 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year ended December 31, 2021 are set out in the consolidated statement of changes in equity. As at December 31, 2021, the amount of reserves available for distribution of the Company amounted to approximately was RMB7,036 million.

USE OF PROCEEDS

Initial global offering

The net proceeds received from the Company's global offering was approximately HK$723.7 million, including the net proceeds received from the full exercise of the over-allotment option. The amount of the net proceeds brought forward in the beginning of the Reporting Period was approximately HK$48.5 million which was for the working capital and general corporate uses. During the Reporting Period, the net proceeds from the Company's global offering was fully utilized.

Placing of shares in June 2020

The net proceeds received from the placing was approximately HK$767.33 million. The amount of the net proceeds brought forward in the beginning of the Reporting Period was approximately HK$523.5 million. The table below sets out the details of actual usage of the net proceeds as of December 31, 2021:

Use of proceeds	**Amount of net proceeds brought forward in the beginning of the Reporting Period** (HK$ million)	**Actual usage up to December 31, 2021** (HK$ million)	**Unutilized net proceeds as of December 31, 2021** (HK$ million)
• developing TapTap	310.2	310.2	0
• working capital and general corporate uses	213.3	213.3	0

Issue of convertible bonds in April 2021

The net proceeds received from the convertible bonds issue was approximately US$275.6 million. The table below sets out the details of actual usage of the net proceeds as of December 31, 2021:

Use of proceeds	**Amount of net proceeds received from convertible bonds issue** (US$ million)	**Actual usage up to December 31, 2021** (US$ million)	**Unutilized net proceeds as of December 31, 2021** (US$ million)	**Expected timeline of full utilization**
• further enhancing the Company's R&D capability and game portfolios	148.8	48.9	99.9	By December 31, 2023
• marketing and promoting games and TapTap	99.2	7	92.2	By December 31, 2023
• general corporate purposes	27.6	0	27.6	By December 31, 2023

Placing of shares in April 2021

The net proceeds received from the placing of shares was approximately HK$1,113.0 million. The table below sets out the details of actual usage of the net proceeds as of December 31, 2021:

Use of proceeds	Amount of net proceeds received from the placing of shares (HK$ million)	Actual usage up to December 31, 2021 (HK$ million)	Unutilized net proceeds as of December 31, 2021 (HK$ million)	Expected timeline of full utilization
• Further enhancing the Company's R&D capability and game portfolios	556.5	423.1	133.4	By December 31, 2023
• potential acquisition and strategic investments	222.6	86.2	136.4	By December 31, 2023
• general corporate purposes	333.9	106.1	227.8	By December 31, 2023

DIRECTORS

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

Executive Directors

Mr. Huang Yimeng *(Chairman of the Board and Chief Executive Officer)*
Mr. Dai Yunjie
Mr. Fan Shuyang
Mr. Shen Sheng (retired on June 25, 2021)

Non-executive Directors

Mr. Liu Wei
Mr. Tong Weiliang (retired on June 25, 2021)

Independent Non-executive Directors

Mr. Pei Dapeng
Mr. Xin Quandong
Ms. Liu Qianli

In accordance with Article 16.18 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, then the number nearest to, but not less than one-third) shall retire from office by rotation. Accordingly, Mr. Dai Yunjie, Mr. Pei Dapeng and Mr. Xin Quandong shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received a confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and the Company considers such Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company an initial term of three years commencing from the Date of Prospectus. Either party has the right to give not less than three months' written notice to terminate the agreement.

Each of the non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the date of the respective service contract or until the third annual general meeting of the Company since the date of the respective service contract, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three month's prior notice in writing.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the date of the respective appointment letter or until the third annual general meeting of the Company since the date of the respective appointment letter, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other less than three month's prior notice in writing.

The Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years in accordance with the Articles of Association.

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

EMPLOYEES, REMUNERATION AND PENSION SCHEME

We had 2,327 employees as of December 31, 2021, substantially all of which were based in Shanghai. The remuneration of employees during the year ended December 31, 2021 is set out in note 7 to the consolidated financial statements.

We offer our employees competitive compensation packages and a collaborative working environment and, as a result, we have generally been able to attract and retain qualified personnel and maintain a stable, core management team. We compensate our employees with basic salaries, subsidies, and performance-based and annual bonuses, and pay, on behalf of our employees, monthly social insurance premiums covering basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund. We also adopted a share option plan on June 25, 2021 for the purpose of providing incentives and rewards to the participants for their contributions to the Group.

We design and implement in-house training programs tailored to each job function and a set of responsibilities to enhance performance. Specific training is provided during orientation for new employees to familiarize them with our working environment and operational procedures. We also provide professional on-the-job training to our existing employees on various topics such as channel management, marketing and promotion strategies, product operations and operational support. We believe our training offers employees sustainable, organized and target-oriented quality training, and which can enhance the productivity of our employees.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 7 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year ended December 31, 2021.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the reporting period.

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

As at December 31, 2021, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were otherwise required, to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

(i) Interest in Shares and underlying Shares

Name of Director	Nature of Interest	Number of Shares(Note 1)	Approximate percentage of shareholding
Mr. Huang Yimeng	Settlor of a discretionary trust(Note 2)	157,605,000 (L)	32.80%
	Beneficial owner	4,545,754 (L)(Note 3)	0.95%
	Interest of spouse	2,100,000 (L)	0.44%
Mr. Dai Yunjie	Settlor of a discretionary trust(Note 4)	67,545,000 (L)	14.06%
	Beneficial owner	615,733 (L)(Note 5)	0.13%

Notes:

(1) The Letter "L" denotes the long position in the Shares.

(2) Happy Today Holding Limited is a company incorporated in the British Virgin Islands and is wholly-owned by Happy Today Company Limited. Happy Today Company Limited is held by the Happy Today Trust, which was established by Mr. Huang as the settlor. Credit Suisse Trust Limited is the trustee of the Happy Today Trust, and Mr. Huang and his family members are the beneficiaries of the Happy Today Trust. Mr. Huang is also a director of Happy Today Holding Limited. As such, each of Mr. Huang, Credit Suisse Trust Limited and Happy Today Company Limited is deemed to be interested in our Shares held by Happy Today Holding Limited under the SFO.

(3) Mr. Huang Yimeng was interested in 4,545,754 Shares, of which inclusive of the interest in 80,754 Shares underlying the share options granted pursuant to the share option plan which was adopted by Shareholders on June 25, 2021.

(4) Aiks Danger Inc. is a company incorporated in the British Virgin Islands and is wholly-owned by Danger & Sons Inc. Danger & Sons Inc. is held by the Danger and Sons Trust, which was established by Mr. Dai as the settlor. Credit Suisse Trust Limited is the trustee of the Danger and Sons Trust, and Mr. Dai and his family members are the beneficiaries of the Danger and Sons Trust. Mr. Dai is also a director of Aiks Danger Inc.. As such, each of Mr. Dai, Credit Suisse Trust Limited and Danger & Sons Inc. is deemed to be interested in our Shares held by Aiks Danger Inc. under the SFO.

(5) Mr. Dai Yunjie was interested in 615,733 Shares, of which inclusive of the interest in 49,933 Shares underlying the share options granted pursuant to the share option plan which was adopted by Shareholders on June 25, 2021.

(ii) Interest in associated corporations

Name of Director	Nature of Interest	Associated corporations	Number of Shares	Approximate percentage of shareholding
Mr. Huang Yimeng	Interest in controlled corporation Beneficial owner	X.D. Network X.D. Network	165,900,000 (L) 47,281,500 (L)	55.98% 15.95%
Mr. Dai Yunjie	Beneficial owner	X.D. Network	20,263,500 (L)	5.76%

Save as disclosed above, as at December 31, 2021, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Company, as at December 31, 2021, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following persons, other than a Director or chief executive of the Company, had an interest of 5% or more in the Shares or underlying Shares:

Name of Shareholder	Nature of Interest	Number of Shares(Note)	Approximate percentage of shareholding
Credit Suisse Trust Limited	Trustee	229,484,865 (L)	47.77%
Happy Today Company Limited	Interest in controlled corporation	157,605,000 (L)	32.80%
Happy Today Holding Limited	Beneficial owner	157,605,000 (L)	32.80%
Danger & Sons Inc.	Interest in controlled corporation	67,545,000 (L)	14.06%
Aiks Danger Inc.	Beneficial owner	67,545,000 (L)	14.06%
Credit Suisse Group AG	Interest in controlled corporation Interest in controlled corporation	33,448,798 (L) 31,712,388(S)	6.96% 6.60%

Note: The Letter "S" denotes the short position in the Shares.

Save as disclosed above, as at December 31, 2021, the Company had not been notified of any persons (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares that were recorded in the register required to be kept under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2021 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

RSU SCHEME

The RSU Scheme was adopted on 3 June 2019. A summary of the principal terms of the RSU Scheme is set out in the section headed "Statutory and General Information–D. RSU Scheme" in Appendix IV to the prospectus of the Company dated 29 November 2019.

As at 31 December 2021, the aggregate number of Shares held by the RSU Holding Entity pursuant to the RSU Scheme for and on behalf of the grantees was 8,437,540, representing approximately 1.76% of the issued share capital of our Company and no RSUs had been granted by the Company.

SHARE OPTION PLAN

On April 30, 2021, the Board resolved to propose the adoption of the share option plan of the Company for the approval by the Shareholders (the "Share Option Plan"). On June 25, 2021 ("Adoption Date"), the Share Option Plan was considered and approved by the Shareholders at the annual general meeting of the Company which will be valid and effective for a period of 10 years commencing on the adoption date. The remaining life of the Share Option Plan is approximately 9 years.

The purpose of the Share Option Plan is to provide incentives and rewards to the directors and employees of the Group for their contributions to, and continuing efforts to promote the interest of, the Company.

The eligible participants for the Share Option Plan include any employee (whether full time or part time), executives or officers, directors (including executive, non-executive and independent non-executive directors) of any member of the Group, who, in the sole opinion of the Board, have contributed or will contribute to the growth and development of the Group.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Adoption Date that is, 48,043,070 Shares. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued Shares from time to time.

No option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Share Option Plan (including exercised, cancelled and outstanding options) in the 12-month period up to and including the grant date of such new grant exceeding 1% in aggregate of the issued share capital of the Company as at the grant date of such new grant. Any grant of further options above this limit shall be subject to the requirements provided under the Listing Rules.

The Board shall be entitled at any time during the operation of the Share Option Plan, at its/his/her sole and absolute discretion, to make an offer of options to an eligible participant by letter in such form as the Board may from time to time determine. Unless otherwise determined by the Board, RMB1.00 shall be payable by the grantee to the Company upon acceptance of the offer of options, and such remittance shall not be refundable.

The total number of securities available for issue under the scheme is 48,043,070 (representing 10% of the issued shares) as at the date of the annual report.

The exercise price shall be a price determined by the Board and notified to any grantee and will be the highest of:

(a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the grant date of the relevant options, which must be a business day;

(b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the grant date of the relevant options; and

(c) the nominal value per Share on the grant date.

Pursuant to Rule 17.07 of the Listing Rules, particulars and movements of share options under the Share Option Plan during the period from the Adoption Date to December 31, 2021 (the "Period") by category of grantees were as follows:

Category of grantees	Date of grant	Exercise price per Share	Closing immediately before the date of grant	Vesting period / Exercisable period	As at January 1, 2021	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period	As at December 31, 2021
Directors and substantial shareholders										
Mr. Huang Yimeng	July 12, 2021	HK$62.60	HK$60.20	July 12, 2021 to July 11, 2031	–	16,049	–	–	–	16,049
	October 11, 2021	HK$46.90	HK$42.85	October 11, 2021 to October 10, 2031	–	64,705	–	–	–	64,705
Mr. Dai Yunjie	July 12, 2021	HK$62.60	HK$60.20	July 12, 2021 to July 11, 2031	–	9,924	–	–	–	9,924
	October 11, 2021	HK$46.90	HK$42.85	October 11, 2021 to October 10, 2031	–	40,009	–	–	–	40,009
Employees	July 12, 2021	HK$62.60	HK$60.20	July 12, 2021 to July 11, 2031	–	321,261	–	–	–	321,261
	October 11, 2021	HK$46.90	HK$42.85	October 11, 2021 to October 10, 2031	–	919,107	–	–	–	919,107
Total					–	1,371,055	–	–	–	1,371,055

On July 12, 2021, a total of 347,234 options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US$0.0001 each of the Company, including 16,049 options granted to Mr. Huang Yimeng, an executive Director, and 9,924 options granted to Mr. Dai Yunjie, an executive Director.

On October 11, 2021, a total of 1,023,821 options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US$0.0001 each of the Company, including 64,705 options granted to Mr. Huang Yimeng, an executive Director, and 40,009 options granted to Mr. Dai Yunjie, an executive Director.

Save as disclosed above, during the period from the Adoption Date to December 31, 2021, no other options under the Share Option Plan have been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

Other than the RSU Plan and the Share Option Plan, during the year ended December 31, 2021, the Company has not entered into any equity-linked agreement.

CONTRACT OF SIGNIFICANCE

During the Reporting Period, save as disclosed in this report neither the Company nor any of its subsidiaries had any contract of significance with its controlling shareholder or its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries (as defined in Appendix 16 to the Hong Kong Listing Rules).

RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out in the normal course of business are set out in note 38 to the consolidated financial statements.

Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, details of the Company's non-exempt continuing connected transactions are as follows:

1. IDC Services Framework Agreement

On November 26, 2019, Shanghai Maichuang entered into an Internet Data Center (the "IDC") services framework agreement (the "IDC Services Framework Agreement") with our Company (for itself and on behalf of other members of our Group), pursuant to which Shanghai Maichuang agreed to provide IDC services and related technical support services to the Group. IDC services and related technical support services include, but are not limited to, server equipment colocation services, bandwidth and Internet protocol (the "IP") address offerings, content delivery network (the "CDN") acceleration services, and maintenance and support services. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed between the relevant parties separately.

The initial term of the IDC Services Framework Agreement shall commence on the Listing Date and expire on December 31, 2021. The IDC Services Framework Agreement has subsequently renewed and shall commence on April 1, 2022 and expire on December 31, 2024.

Reasons for the Transactions

Shanghai Maichuang is an IDC services provider in China and offers internet and data-related services, including IDC services and CDN services. Since the establishment of the Company, Shanghai Maichuang has been providing us with IDC services and related technical support services, and therefore has acquired a deep understanding of our business and operational requirements of the Group. Having considered the Group's previous purchasing experience and the long-term and stable cooperation with Shanghai Maichuang, the Directors believe that Shanghai Maichuang is capable of fulfilling the demands of the Group in a reliable and cost-effective manner and entering into the IDC Services Framework Agreement would minimize disruption to our operation and internal procedures of the Group.

The proposed annual caps for the service fees under the IDC Services Framework Agreement for each of the nine months ending December 31, 2022 and two years ending December 31, 2023 and 2024 is RMB5,027,000, RMB5,529,700 and RMB6,082,670 respectively.

Shanghai Maichuang is held by Mr. Dai's spouse as to 32.00% and Huang Binbin and Chen Hao who are Independent Third Parties as to 68.00%, therefore Shanghai Maichuang is an associate of Mr. Dai and a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

For the year ended 31 December 31, 2021, the independent non-executive Directors have reviewed the aforesaid continuing connected transactions and confirmed that the transactions have been entered into:

i. in the ordinary and usual course of business of the Company;

ii. on normal commercial terms or better; and

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

The Auditor has been engaged to report on the 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.

The Auditor had informed the Board and confirmed nothing has come to their attention that causes them to believe that the continuing connected transactions:

i. have not been approved by the listed issuer's board of directors;

ii. were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;

iii. were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

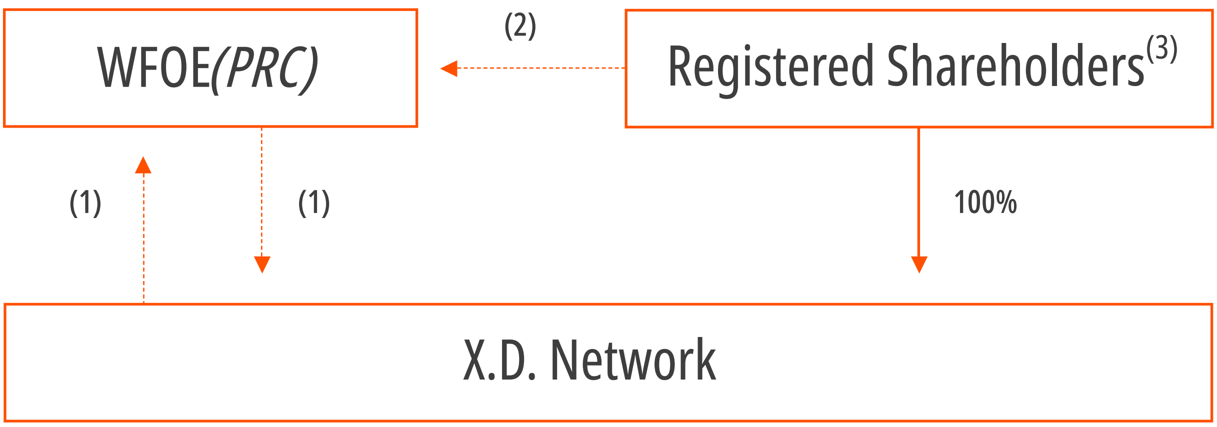
iv. have exceeded the cap.

The Company has confirmed that the execution and implementation of the specific agreements under the continuing connected transactions set out above during the reporting period has followed the pricing policies of such continuing connected transactions.

2. Contractual Arrangements

Our Company has entered into a series of the Contractual Arrangements with WFOE and the PRC Consolidated Affiliated Entities, pursuant to which our Company would gain effective control over, and receive all the economic benefits generated by, the businesses operated by the PRC Consolidated Affiliated Entities. Accordingly, through the Contractual Arrangements, the results of operations and assets and liabilities of X.D. Network and its subsidiaries are consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group. The total revenue of the PRC Consolidated Affiliated Entities during the year ended December 31, 2021 was approximately RMB1,808 million, and the total assets of the PRC Consolidated Affiliated Entities as at December 31, 2021 was approximately RMB3,655 million.

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



"———" denotes legal and beneficial ownership in the equity interest

"-----------" denotes the Contractual Arrangements

Notes:

(1) WFOE provides technical consultation and other services in exchange for service fees from X.D. Network. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.

(2) The Registered Shareholders executed exclusive option agreement, equity pledge agreement, voting rights proxy agreement and the spouse of each of the Relevant Individual Shareholders executed an undertaking, in favour of WFOE. Please refer to the paragraph headed "Summary of the Contractual Arrangements" below.

(3) Xindong Holding Co., Ltd. (心動控股有限公司), Shanghai Jiexin Investment Management Partnership (Limited Partnership), Fuzhou Tianmeng Digital Company Limited (福州天盟數碼有限公司), Shanghai Muxinyinxi Investment Management Partnership (Limited Partnership), Dongfang Xinghui (Shanghai) Investment Center (Limited Partnership)（東方星輝(上海)投資中心(有限合夥)), Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司), XiamenQunce Chuangying Equity Investment Partnership (Limited Partnership), Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), Tianjin Jinwutong Investment Management Partnership (Limited Partnership) and the Relevant Individual Shareholders (including Mr. Huang Yimeng, Mr. Dai Yunjie, Mr. Zhao Yuyao, Mr. Hong Shen, Mr. Shen Sheng, Mr. Wang Chenguang, Mr. Pan Zuqiang, Ms. Zhang Aifen, Ms. Chen Ying, Mr. Jia Shaochi, Mr. Huang Yecheng, Ms. Pan Chenping and Mr. Huang Xiwei) are collectively referred to as "Registered Shareholders."

(4) In addition to the restricted and/or prohibited business of our Company, X.D. Network also directly or indirectly holds investment in certain entities in the PRC (the "Relevant Entities"), each of which (i) is engaged in business subject to foreign investment prohibition under the Negative List which will impair the continuous validity of the relevant licenses or permits of the prohibited businesses held or invested by these entities; (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List; however, the Relevant Entities intend to invest or engage in potential businesses which are subject to foreign investment prohibition and has expressly rejected our Company's proposed transfer of the interest in these entities held by our Group to WFOE; or (iii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List; however, the transfer of its equity interest directly or indirectly held by X.D. Network is subject to other stakeholders' consent and assistance and the Company was unable to procure such consent/assistance. It would be impracticable to obtain the consent and/or the assistance from all of the relevant stakeholders required for our Company's proposed transfer of the interest in the Relevant Entity held by our Group to WFOE. For further details of these Relevant Entities, please refer to pages 208 to 213 of the Prospectus.

Summary of the Contractual Arrangements

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

(i) Exclusive Service Agreement

On June 16, 2019, WFOE and X.D. Network entered into the exclusive consultation and technical service agreement (the "Exclusive Service Agreement"), pursuant to which X.D. Network agreed to engage WFOE as its exclusive provider to provide X.D. Network with technical consultation and services, including but not limited to, (i) licensing the operation of the self-developed games and licensed games; (ii) licensing the use of the software, copyright and proprietary technology; (iii) providing comprehensive solutions for business operation and management skills; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and online games; (vi) employee training; (vii) assistance in the collection and research of the technical information in compliance with the restriction under relevant PRC laws; and (viii) other services as required by X.D. Network from time to time. In exchange for these services, X.D. Network shall pay (i) a service fee, which shall consist of the total consolidated profit of X.D. Network in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions recognized by WFOE in each financial year, which may include any accumulated deficit of X.D. Network and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any); and (ii) the supplemental service fee as otherwise agreed by X.D. Network and WFOE for the specific consulting service or technical service (if any) required by X.D. Network. Meanwhile, X.D. Network agreed to any adjustment WFOE may make on the services scope and the service fee in accordance with the PRC tax law and PRC tax practice. During the term of the Exclusive Service Agreement, WFOE enjoys all the economic benefits in relation to X.D. Network business operation. The Exclusive Service Agreement also provides that WFOE has the exclusive and proprietary ownership, rights and interests in all intellectual property arising out of or created during the performance of the Exclusive Service Agreement.

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

(ii) *Exclusive Option Agreement*

On June 16, 2019, WFOE, X.D. Network and the Registered Shareholders entered into the exclusive option agreement (the "Exclusive Option Agreement"), WFOE has the irrevocable, unconditional and exclusive right to purchase, or to designate one or more persons/entities to purchase, from the Registered Shareholders all or any part of their equity interests in X.D. Network and from X.D. Network all or any part of the assets of X.D. Network at any time in WFOE's absolute discretion in accordance with the provision of the Exclusive Option Agreement and to the extent permitted by the PRC laws. The consideration in relation to purchasing shares from the Registered Shareholders shall be RMB1 or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from X.D. Network shall be the lowest price as permitted under the applicable PRC laws. The Registered Shareholders shall return the consideration received to WFOE or any person designated by WFOE.

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

(iii) *Equity Pledge Agreement*

On June 16, 2019, WFOE, X.D. Network and the Registered Shareholders entered into the equity pledge agreement (the "Equity Pledge Agreement"), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in X.D. Network to WFOE as collateral security for securing the performance of their obligations under the Contractual Arrangements or for any and all of the secured indebtedness under the Contractual Arrangements. During the pledge period, WFOE is entitled to receive any dividends arising from the equity interests in X.D. Network held by the Registered Shareholders.

The pledge in favour of WFOE under the Equity Pledge Agreement shall remain valid until after all the contractual obligations of the Registered Shareholders and X.D. Network under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and X.D. Network under the Contractual Arrangements have been fully settled.

(iv) *Voting Rights Proxy Agreement and Powers of Attorney*

On June 16, 2019, the Registered Shareholders, WFOE and X.D. Network entered into the Voting Rights Proxy Agreement (the "Voting Rights Proxy Agreement"), pursuant to which, each of the Registered Shareholder agreed to enter into a powers of attorney respectively through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees (including but not limited to the directors of the holding companies of WFOE and their successors and liquidators replacing such directors but excluding those non-independent or who may give rise to conflict of interests) as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of X.D. Network in accordance with the articles of association of X.D. Network.

The Voting Rights Proxy Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in X.D. Network and/or the entire assets held by X.D. Network have been transferred to WFOE or its appointee(s) in accordance to the Exclusive Service Agreement; or (ii) terminated in writing by WFOE thirty days in advance.

(v) *Spouse Undertakings*

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the "Spouse Undertakings") to the effect that (i) the spouse has full knowledge of and unconditionally and irrevocably consents to the entering into the Contractual Arrangements (as amended from time to time) among the respective Relevant Individual Shareholders, WFOE and X.D. Network; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in X.D. Network from time to time) and take all necessary actions to ensure the appropriate implementation of the Contractual Arrangements; (iii) the spouse has no direct right to or interest in such interests of the Relevant Individual Shareholder and will not have any claim on such interests; (iv) the spouse unconditionally and irrevocably undertakes that he/she shall not in any manner act against the Contractual Arrangements; and (v) in the event that the spouse of the Relevant Individual Shareholders holds the interests in X.D. Network, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and X.D. Networks as requested by WFOE.

Reasons for adopting the Contractual Agreements

Our principal businesses involve publication and operation of games through mobile apps and websites and are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment. In view of such PRC regulatory background, after consultation with our PRC legal advisers, we determined that it was not viable for our Company to hold our PRC Consolidated Affiliated Entities directly through equity ownership. For further details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements — PRC Regulatory Background — Overview" and "Contractual Arrangements — Development in the PRC Legislation on Foreign Investment" on pages 206 to 207 and pages 225 to 227 of the Prospectus.

Risks relating to the Contractual Arrangements

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

- If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected.
- If the PRC government determines that our ownership structure does not comply with the restrictions contained in the GAPP Notice, we could be subject to severe penalties.
- Contractual Arrangements with X.D. Network and its shareholders may not be as effective in providing control as direct ownership. X.D. Network and its shareholders may fail to perform their obligations under these Contractual Arrangements.
- Our ability to enforce the equity pledge agreements may be subject to limitations based on PRC laws and regulations.
- The Registered Shareholders of X.D. Network have potential conflicts of interest with us, which may adversely affect our business.
- We may lose the ability to use and enjoy the benefits of the assets held by X.D. Network that are important to the operations of our business if such entity goes bankrupt or becomes subject to a dissolution or liquidation proceeding.
- Contractual Arrangements with X.D. Network may result in adverse tax consequences.
- If we exercise the option to acquire the equity ownership or assets of X.D. Network, the ownership transfer may subject us to substantial costs.
- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

For further details of these risks, please refer to the section headed "Risk Factors — Risks Related to Our Contractual Arrangements" on pages 50 to 56 of the Prospectus.

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

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

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

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

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

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

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

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

iii. other than the Contractual Arrangements, no new contracts had been entered into, renewed and/or reproduced between our Group and the PRC Consolidated Affiliated Entities during the year ended December 31, 2021; and

iv. the Contractual Arrangements had been entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable so far as our Group is concerned, and in the interest of our Company and its Shareholders as a whole.

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2021 are set out in note 1 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Under the Articles of Association, every Director, Auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, Auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

ISSUE OF CONVERTIBLE BONDS UNDER THE GENERAL MANDATE

On April 12, 2021, the Company completed the issue of convertible bonds in an aggregate principal amount of US$280 million due 2026 (the "Convertible Bonds"). The issue price of the Convertible Bonds shall be 100.00% of the aggregate principal amount and the denomination of each of the Convertible Bonds shall be US$200,000 and integral multiples of US$1,000 thereof. The initial conversion price is HK$63.45 per share, and the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day on which the CB subscription agreement was signed (i.e. March 31, 2021) was HK$47.00 per share. Based on such initial conversion price and assuming full conversion of the Convertible Bonds at such initial conversion price, the Convertible Bonds will be converted into a maximum of 34,308,715 conversion shares of the Company. The gross proceeds from the issue of the Convertible Bonds were US$280 million and the net proceeds were approximately US$275.6 million. Based on the net proceeds and assuming full conversion of the Convertible Bonds, the net price per conversion share is approximately HK$62.46.

The Convertible Bonds have been offered and sold by the joint managers to no less than six (6) independent bondholders (who are, to the best knowledge of the Directors, independent individual, corporate and/or institutional investors). The Convertible Bonds were listed on the Stock Exchange on April 13, 2021.

There had not been any exercise of the Convertible Bonds as of December 31, 2021, and no redemption right had been exercised by the bondholders or the Company as of December 31, 2021. Also, to the best of the Company's knowledge, based on the Group's financial and liquidity position, the Company expects to be able to meet its redemption obligations under the Convertible Bonds.

PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On March 31, 2021, the Company entered into the placing agreement with the placing agents, pursuant to which, each of the placing agents has agreed to act as the placing agent for the Company, on a best effort basis, to place 26,318,000 placing shares (the "Placing"). The placing price was HK$42.38 per share and the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day on which the placing agreement was signed (i.e. March 31, 2021) was HK$47.00 per share. The gross proceeds from the Placing were approximately HK$1,115.36 million and the net proceeds were approximately HK$1,113.0 million. The net price per share for the Placing after deducting related fees and expenses is approximately HK$42.29 per share. The aggregate nominal value of the Placing was US$2,631.80.

On April 13, 2021, the Company completed the Placing of a total of 26,318,000 new shares of the Company to placees, namely Bilibili Inc. and Taobao China Holding Limited, which are, to the best knowledge of the Directors, independent of, and not connected with, the Company and its connected persons or any of its respective associates.

The placing price is HK$42.38 per Share and represents: (i) a discount of approximately 9.83% to the closing price of HK$47.00 per Share as quoted on the Stock Exchange on March 31, 2021 (being the last full trading day prior to the signing of the placing agreement); (ii) a discount of approximately 14.78% to the average closing price of approximately HK$49.73 per Share as quoted on the Stock Exchange for the last five trading days prior to and including March 31, 2021 (being the last full trading day prior to the signing of the placing agreement); and (iii) a discount of approximately 19.08% to the average closing price of approximately HK$52.37 per Share as quoted on the Stock Exchange for the last 10 trading days prior to and including March 31, 2021 (being the last full trading day prior to the signing of the placing agreement). The placing price was determined after arm's length negotiation between the Company and the placing agents, with reference to the market price of the Shares.

The net proceeds raised from issue of the Convertible Bonds and the Placing are intended to be used for (i) further enhancing the Company's R&D capability and game portfolios, (ii) marketing and promoting games and TapTap, (iii) potential acquisitions and strategic investments, and (iv) general corporate purposes. For more information on the use of such net proceeds, see the above section "Use of Proceeds" of this report. The vision of the Company is to develop TapTap into a leading international game community and platform, which would require substantial and continuous capital investment. The Board therefore considers that the proceeds from the Convertible Bonds and the Placing would further strengthen the financial position of the Company, in order to allow the Company to seize the development opportunities in the current challenging global economy.

For further details of the Convertible Bonds and the Placing, please refer to the announcements of the Company dated March 31, 2021, April 12, 2021 and April 13, 2021.

DONATIONS

During the year ended December 31, 2021, the Company made charitable and other donations in a total amount of RMB110,000.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 21 to 35 of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended December 31, 2021, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatening against the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

Our Group has adopted internal control and risk management policies to monitor the on-going compliance with relevant laws and regulations. As far as the Board is concerned, our Group has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries in all aspects.

As of the date of this report, we have implemented and completed system upgrading works in respect of the anti-addiction systems for our online games and premium games operated in China in accordance with the Notice on Preventing Minors from Indulging in Online Games (《關於防止未成年人沉迷網絡遊戲的通知》) issued by National Administration of Press and Publication (國家新聞出版總署). We will then engage an external independent IT consultant to review and test the effectiveness of our upgraded systems and will promptly consult with our PRC legal advisers as and when required.

MAJOR CUSTOMERS AND SUPPLIERS

1. Information about the major customers of the Company

During the year ended December 31, 2021, sales to the largest customer and the five largest customers amounted to RMB248 million and RMB948 million, respectively, accounting for 9.2% and 35.1% of the total sales for the year, respectively. No related-party sales were transacted to the five largest customers. None of the other Directors or shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Group's five largest customers.

2. Information about the major suppliers of the Company

During the year ended December 31, 2021, purchases from the largest supplier and the five largest suppliers amounted to RMB256 million and RMB656 million, respectively, accounting for 6.9% and 17.6% of the total purchases for the year, respectively. There were no related-party purchases among such purchases from the five largest suppliers. None of the Company's Directors or other shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the issuance of 26,318,000 ordinary shares on 13 April 2021 under general mandate pursuant to the placing agreement dated 31 March 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2021.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

On January 10, 2022, a total of 5,675,911 options were granted by the Company under the Share Option Plan to certain eligible participants to subscribe for ordinary shares of US$0.0001 each of the Company, including 83,213 options granted to Mr. Huang Yimeng, an executive Director, and 51,453 options granted to Mr. Dai Yunjie, an executive Director. Please refer to the announcement of the Company dated January 10, 2022 for further details of the grant.

Save as disclosed above, there are no material subsequent events undertaken by the Group after December 31, 2021and up to the date of this announcement.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2021.

SUFFICIENCY OF PUBLIC FLOAT

According to information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained a sufficient public float as required under the Listing Rules.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and principle C.3 of the CG code (which has been re-numbered as principle D.3 of the CG Code since January 1, 2022), and has adopted written terms of reference. The Audit Committee comprises three members, including Mr. Xin Quandong, Mr. Pei Dapeng and Ms. Liu Qianli and is currently chaired by Mr. Xin Quandong, who possesses suitable professional qualifications.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2021 and confirmed that it has complied with all applicable accounting principles, standards and requirements, and made sufficient disclosures. The Audit Committee has also discussed the matters of audit and financial reporting.

AUDITOR

There has been no change in auditor in preceding three financial years. The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the Annual General Meeting.

For and on behalf of the Board
XD Inc.
Huang Yimeng
Chairman

Hong Kong, March 30, 2022

08

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

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

Opinion

What we have audited

The consolidated financial statements of XD Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 82 to 167, comprise:

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

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition on online game operating services — estimates of lifespan of in-game virtual items;
- Impairment assessment of goodwill.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition on online game operating services — estimates of lifespan of in-game virtual items (Refer to notes 2.19, note 4.1 and note 5 to the consolidated financial statements.) During the year ended 31 December 2021, the majority of the Group's revenue generates from its online game operating services. The Group has recognised revenue from sales of in-game virtual items ratably over the lifespan of in-game virtual items determined by management with reference to the expected playing period of paying players ("Player Relationship Period") when the Group has determined that it is obligated to provide on-going services to game players. We focused on this area because the determination of the lifespan of the in-game virtual items with reference to the expected Player Relationship Period is subject to high degree of estimation uncertainty. The inherent risk in relation to the determination of the lifespan of the in-game virtual items with reference to the expected Player Relationship Period is considered significant due to subjectivity of significant assumptions used and significant judgements involved in selecting data. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to nature of virtual item, the games profile (including historical players' consumption patterns, churn rates, and games life-cycle), target audience and its appeal to players of different demographics groups, and the Group's marketing strategy; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period.	Our procedures performed in relation to the estimation of lifespan of in-game virtual items included: We obtained an understanding of management's internal control and assessment process of estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity, changes and susceptibility to management bias or fraud. We evaluated and validated, on a sample basis, key internal controls in respect of the recognition of revenue from sales of in-game virtual items, including management's review and approval of (i) determination of the estimated lifespans of new virtual items prior to their launches; and (ii) changes in the estimated lifespans of existing virtual items based on periodic reassessment on any indications triggering such changes. We evaluated the judgement and estimates made by management in determining the lifespan of in-game virtual items with reference to the expected Player Relationship Periods including nature of virtual item, the games profile, the target audience and players of different demographics groups of the relevant games with reference to the nature of games, historical operating data, marketing data and practice, and our industry knowledge. We also retrospectively evaluated, on a sample basis, the outcome of prior period assessment of the expected Player Relationship Periods to assess the effectiveness of management's estimation process by comparing the actual users' relationship periods against the original estimation. We checked, on a sample basis, the data integrity of historical players' consumption patterns and calculation of the churn rates used in determining the Player Relationship Periods. We assessed the adequacy of the disclosures related to estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods in the context of the applicable financial reporting framework. We also considered whether the judgements made in determinations of estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods would give rise to indicators of possible management bias. Based on the procedures performed, we considered that the risk assessment of estimates of lifespan of in-game virtual items with reference to the expected Player Relationship Periods remained appropriate and the significant judgements and estimates adopted by management in the assessment of lifespan of in-game virtual items with reference to the expected Player Relationship Periods are supported by the evidence obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Notes 2.9, 4.6 and 16 to the consolidated financial statements. As at December 31, 2021, the net carrying amount of goodwill amounted to RMB167.10 million. Goodwill impairment assessment is required to be conducted annually and whenever there is an indication that a cash-generating unit ("CGU") to which goodwill has been allocated may be impaired. The Group engaged an independent external valuer to assist management in the goodwill impairment assessment. The recoverable amounts of CGUs were determined based on the value-in-use calculations using cash flow projections. We focused on this area due to that goodwill impairment assessment is subject to high degree of estimation uncertainty. The inherent risk in relation to goodwill impairment is considered significant due to the complexity of valuation models, subjectivity of significant assumptions used and significant judgements involved in selecting data such as annual revenue growth rate, gross profit rate, terminal revenue growth rate and pre-tax discount rate.	Our procedures in relation to management's impairment of goodwill included: We tested management's assessment including periodic impairment indications evaluation as to whether indicators of impairment exist by corroborating with the operating and market information. We obtained an understanding of management's internal control and assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud. We evaluated and validated, on a sample basis, management's key internal controls in respect of the impairment assessments, including the determination of appropriate valuation models and assumptions used in the impairment assessment. We evaluated the external valuer's competence, capabilities and objectivity. We retrospectively evaluated the outcome of prior period impairment assessment of goodwill to assess the effectiveness of the management's estimation process. We assessed the appropriateness of the valuation models and significant assumptions adopted by management by (i) evaluating the historical accuracy of the cash flow forecast by, for example, comparing the forecast used in the prior year to the actual performance of the business in the current year; (ii) evaluating the reasonableness of the key assumptions used in the cash flow forecast, including revenue growth rate, terminal growth rate and gross profit rate taking into account industry forecasts and market developments, the Group's management approved budget, plan and historical performance; and (iii) involving our internal valuation experts to evaluate the pre-tax discount rate applied in the calculation by comparing with the industry or market data to assess whether the pre-tax discount rate applied were within the range of those adopted by comparable companies in the same industry and check the calculation of the discount rate.

Key Audit Matter	How our audit addressed the Key Audit Matter
	We assessed management's sensitivity analysis regarding the key assumptions to evaluate the extent to which adverse changes would result in the goodwill being impaired. We assessed the adequacy of the disclosures related to goodwill impairment in the context of the applicable financial reporting framework. We also considered whether the judgements made in selecting the models, significant assumptions and data would give rise to indicators of possible management bias. Based on the procedures performed, we considered that the risk assessment of goodwill impairment remained appropriate and the key judgement and estimates adopted by management in the assessment of goodwill impairment are supported by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2022

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CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Notes	**Year ended 31 December** **2021** **RMB'000**	2020 RMB'000
Revenues	5	**2,703,173**	2,847,553
Cost of revenues	6	**(1,476,930)**	(1,315,525)
Gross profit		**1,226,243**	1,532,028
Selling and marketing expenses	6	**(780,184)**	(633,394)
Research and development expenses	6	**(1,242,174)**	(657,506)
General and administrative expenses	6	**(235,105)**	(179,916)
Net impairment reversal/(losses) on financial assets	6	**262**	(1,624)
Fair value changes on investments measured at fair value through profit or loss	8	**9,347**	(1,426)
Other income	9	**44,993**	26,166
Other gains, net	10	**21,097**	3,361
Operating (loss)/profit		**(955,521)**	87,689
Finance income		**13,533**	15,505
Finance costs		**(40,264)**	(3,986)
Finance (costs)/income, net	11	**(26,731)**	11,519
Share of results of investments accounted for using equity method	18(c)	**28,387**	14,915
Impairment of investments accounted for using equity method	18(c)	**(2,023)**	(7,137)
(Loss)/profit before income tax		**(955,888)**	106,986
Income tax credits/(expenses)	12	**38,600**	(51,198)
(Loss)/profit for the year		**(917,288)**	55,788
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
— Currency translation differences		**(1,793)**	(25,062)
Items that may not be reclassified to profit or loss			
— Currency translation differences		**(56,316)**	(96,170)
Total comprehensive loss for the year		**(975,397)**	(65,444)
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(863,811)**	9,145
Non-controlling interests	18(a)	**(53,477)**	46,643
		(917,288)	55,788
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(921,097)**	(103,896)
Non-controlling interests	18(a)	**(54,300)**	38,452
		(975,397)	(65,444)
(Loss)/earnings per share for profit for the year attributable to the equity holders of the Company			
Basic and diluted (loss)/earnings per share (RMB)	13	**(1.86)**	0.02

The notes on pages 92 to 167 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**148,561**	112,592
Right-of-use assets	15	**139,900**	129,555
Intangible assets	16	**248,808**	199,322
Deferred tax assets	17	**75,518**	16,810
Investments accounted for using the equity method	18	**89,846**	66,326
Long-term investments measured at fair value through profit or loss	20	**30,102**	23,670
Prepayments, deposits and other assets	21	**63,383**	26,713
		796,118	574,988
Current assets			
Trade receivables	22	**223,550**	299,161
Income tax prepayment		**2,258**	30,254
Prepayments, deposits and other assets	21	**64,746**	120,827
Short-term investments	23	**792,438**	—
Restricted cash	24(b)	**296**	—
Cash and cash equivalents	24(a)	**3,164,726**	2,319,512
		4,248,014	2,769,754
Total assets		**5,044,132**	3,344,742
EQUITY			
Share capital	25	**329**	312
Share premium	25	**7,035,801**	6,095,544
Shares held for share award schemes	25	**(6)**	(6)
Other reserves	26	**(4,512,959)**	(4,444,279)
(Accumulated deficit)/retained earnings		**(218,923)**	644,888
Equity attributable to equity holders of the Company		**2,304,242**	2,296,459
Non-controlling interests	18	**78,165**	283,667
Total equity		**2,382,407**	2,580,126

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		As at 31 December	
		2021	2020
	Notes	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	17	**6,163**	1,621
Lease liabilities	27	**83,849**	81,920
Convertible bonds	32	**1,662,058**	—
		1,752,070	83,541
Current liabilities			
Trade payables	28	**205,390**	164,560
Advance from customers	29	**37,025**	21,215
Other payables and accruals	30	**341,578**	239,968
Contract liabilities	31	**206,642**	128,546
Current income tax liabilities		**42,740**	78,713
Lease liabilities	27	**54,275**	48,073
Convertible bonds	32	**22,005**	—
		909,655	681,075
Total liabilities		**2,661,725**	764,616
Total equity and liabilities		**5,044,132**	3,344,742

The notes on pages 92 to 167 are an integral part of these consolidated financial statements.

The financial statements on pages 92 to 167 were approved by the Board of Directors on 30 March 2022 and were signed on its behalf.

Dai Yunjie
Director

Fan Shuyang
Director

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company							
	Notes	Share capital RMB'000	Share premium RMB'000	Shares held for share award schemes RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of 1 January 2020		290	5,357,114	(6)	(4,137,328)	651,800	1,871,870	414,660	2,286,530
Comprehensive loss									
Profit for the year		—	—	—	—	9,145	9,145	46,643	55,788
Other comprehensive loss									
— Currency translation differences		—	—	—	(113,041)	—	(113,041)	(8,191)	(121,232)
Total comprehensive loss for the year		—	—	—	(113,041)	9,145	(103,896)	38,452	(65,444)
Transaction with owners in their capacity as owners									
Issuance of ordinary shares upon exercise of IPO over allotment	25	3	36,669	—	—	—	36,672	—	36,672
Issuance of ordinary shares	25	19	701,761	—	—	—	701,780	—	701,780
Dividend distribution of subsidiaries	33	—	—	—	—	—	—	(49,223)	(49,223)
Appropriation to statutory reserves	26	—	—	—	16,057	(16,057)	—	—	—
Transaction with non-controlling interests	18(b)	—	—	—	(209,967)	—	(209,967)	(120,222)	(330,189)
Total transactions with owners in their capacity as owners for the year		22	738,430	—	(193,910)	(16,057)	528,485	(169,445)	359,040
As of 31 December 2020		312	6,095,544	(6)	(4,444,279)	644,888	2,296,459	283,667	2,580,126

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

		Attributable to equity holders of the Company							
	Notes	Share capital RMB'000	Share premium RMB'000	Shares held for share award schemes RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated Loss) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As of 1 January 2021		312	6,095,544	(6)	(4,444,279)	644,888	2,296,459	283,667	2,580,126
Comprehensive loss									
Loss for the year		—	—	—	—	(863,811)	(863,811)	(53,477)	(917,288)
Other comprehensive loss									
— Currency translation differences		—	—	—	(57,286)	—	(57,286)	(823)	(58,109)
Total comprehensive loss for the year		—	—	—	(57,286)	(863,811)	(921,097)	(54,300)	(975,397)
Transaction with owners in their capacity as owners									
Issuance of convertible bond	32	—	—	—	97,390	—	97,390	—	97,390
Issuance of ordinary shares	25	17	940,257	—	—	—	940,274	—	940,274
Dividend distribution of subsidiaries	33	—	—	—	—	—	—	(115,995)	(115,995)
Share-based compensation expenses	34	—	—	—	27,619	—	27,619	—	27,619
Transaction with non-controlling interests	18(b)	—	—	—	(136,403)	—	(136,403)	(35,207)	(171,610)
Total transactions with owners in their capacity as owners for the year		17	940,257	—	(11,394)	—	928,880	(151,202)	777,678
As of 31 December 2021		329	7,035,801	(6)	(4,512,959)	(218,923)	2,304,242	78,165	2,382,407

The notes on pages 92 to 167 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	36	**(448,760)**	409,869
Income tax paid		**(26,445)**	(61,677)
Net cash (used in)/generated from operating activities		**(475,205)**	348,192
Cash flows from investing activities			
Purchase of property, plant and equipment		**(91,755)**	(72,451)
Proceeds from disposals of property, plant and equipment		**158**	1,486
Purchase of intangible assets (including prepayments for intangible assets)		**(55,781)**	(39,504)
Net cash paid for business combination	35	**(67,695)**	—
Purchase of short-term investments		**(3,081,385)**	(973,870)
Proceeds from disposals of short-term investments		**2,315,352**	1,480,492
Acquisition of long-term investments measured at fair value through profit or loss		**(8,500)**	(3,000)
Acquisition of investments accounted for using the equity method	18(c)	**—**	(10,025)
Dividends received from investments accounted for using the equity method	18(c)	**3,600**	3,600
Proceeds from disposal of investments accounted for using the equity method	18(c)	**—**	460
Net cash (used in)/generated from investing activities		**(986,006)**	387,188
Cash flows from financing activities			
Issuance of convertible bond	32	**1,807,525**	—
Payment for interest of convertible bonds	32	**(11,157)**	—
Net proceeds from issuance of ordinary shares	25	**940,274**	701,780
Issuance of ordinary shares upon exercise of IPO over-allotment ("OAO")	25	**—**	40,132
Listing expense payment		**—**	(69)
Dividend paid to non-controlling shareholders	33	**(115,995)**	(49,223)
Payment for acquisition of additional equity interests in a subsidiary	18(b)	**(171,610)**	(330,189)
Payment for lease liabilities (including interests)	15	**(61,345)**	(32,029)
Net cash generated from financing activities		**2,387,692**	330,402
Net increase in cash and cash equivalents		**926,481**	1,065,782
Cash and cash equivalents at the beginning of the year		**2,319,512**	1,336,869
Effects of exchange rate changes on cash and cash equivalents		**(81,267)**	(83,139)
Cash and cash equivalents at the end of the year	24	**3,164,726**	2,319,512

The notes on pages 92 to 167 are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

XD Inc. (the "Company") is an exempted company with limited liability incorporated under the laws of the Cayman Islands on 25 January 2019.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the "Group") are principally engaged in the development, operation, publishing and distribution of mobile and web games and provision of information services (the "Listing Business") in the People's Republic of China (the "PRC") and other countries and regions.

The Company has its primary listing ("IPO") on the Stock Exchange of Hong Kong Limited on 12 December 2019.

The consolidated financial statements for the year ended 31 December 2020 and 2021 are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) unless otherwise stated.

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

Name	Place of establishment/ Principal place of operation and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group As of December 31, 2021	2020	Principal activities
Subsidiaries					
Directly held:					
XD Holdings Limited	BVI, limited liability company	USD1	**100.00%**	100.00%	Investment holding
Taptap Holding Limited	BVI, limited liability company	USD1,055.7	**83.74%**	100.00%	Investment holding
XDG Holding Limited	BVI, limited liability company	USD1	**100.00%**	100.00%	Investment holding
Indirectly held:					
XD (HK) Limited	Hong Kong, limited liability company	HKD10,000	**100.00%**	100.00%	Investment holding
XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司, the "WFOE")	mainland China*, limited liability company	RMB100,000,000	**100.00%**	100.00%	Game development
Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司, "Longcheng")	mainland China, limited liability company	RMB1,000,000	**65.00%**	65.00%	Game operation
X.D. Global Limited	Hong Kong, limited liability company	HKD12,213,000	**65.00%**	65.00%	Game operation
XD Interactive Entertainment (Hainan) Co., Ltd. (心動互動娛樂（海南）有限公司)	mainland China, limited liability company	RMB10,000,000	**100.00%**	100.00%	Game development

* For the purpose of preparing the consolidated financial statements, mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

1 GENERAL INFORMATION (Continued)

Name	Place of establishment/ Principal place of operation and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group As of December 31, 2021	2020	Principal activities
Ganfan (Shanghai) Catering Service Co., Ltd. (淦飯（上海）餐飲服務有限公司)	mainland China, limited liability company	RMB5,000,000	**100.00%**	0.00%	Catering
Hyper Times limited	BVI, limited liability company	USD50,000	**51.00%**	51.00%	Investment holding
Hyper Power Limited	Hong Kong, limited liability company	HKD10,000	**51.00%**	51.00%	Investment holding
Shanghai Xincheng Information Technology Co., Ltd. (上海心珹信息技術有限公司)	mainland China, limited liability company	RMB1,000,000	**51.00%**	51.00%	Game development
Lean Cloud (Hong Kong) Limited	Hong Kong, limited liability company	USD7,300,000	**100.00%**	0.00%	Information services
Pinyuechuangzhi (Beijing) Technology Consulting Co., Ltd. (品悅創智（北京）技術諮詢有限公司)	mainland China, limited liability company	USD7,300,000	**100.00%**	0.00%	Information services
XD Entertainment Pte. Ltd.	Singapore, limited liability company	Singapore Dollar (“SGD”) 500,000	**100.00%**	100.00%	Game operation
Xindong Korea Co., Ltd.	Korea, limited liability company	Korea Won (“KRW”) 1,142,000,000	**100.00%**	100.00%	Game operation
Xindong (Hong Kong) Company Limited	Hong Kong, limited liability company	HKD1,000,000	**100.00%**	100.00%	Game operation
Xingdong Limited	BVI, limited liability company	USD50,000	**100.00%**	100.00%	Investment holding
Taptap Pte. Ltd.	Singapore, limited liability company	SGD500,000	**100.00%**	100.00%	Information services
Tappay Pte. Ltd.	Singapore, limited liability company	SGD 500,000	**100.00%**	100.00%	Information services
X.D. Global (HK) Limited	Hong Kong, limited liability company	HKD10,000	**65.00%**	65.00%	Game operation
Taptap (HK) Limited	Hong Kong, limited liability company	HKD10,000	**83.74%**	55.78%	Game platform and information services
Shanghai Yiwan Interactive Entertainment Co., Ltd. (上海易玩互動娛樂有限公司)	mainland China, limited liability company	RMB10,000,000	**83.74%**	55.78%	Information services

1 GENERAL INFORMATION (Continued)

Name	Place of establishment/ Principal place of operation and nature of legal entity	Particulars of issued/ paid-in capital	Effective interest held by the Group As of December 31, 2021	2020	Principal activities
Structured entities controlled via the Contractual Arrangements					
X.D. Network Inc.	mainland China, limited liability company	RMB236,197,420	**100.00%**	100.00%	Game operation
Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩（上海）網絡科技有限公司, "Yiwan")	mainland China, limited liability company	RMB10,917,294	**80.98%**	74.12%	Game platform and information services
X.D. Investment Management Co., Ltd. (上海心動投資管理有限公司)	mainland China, limited liability company	RMB81,100,000	**100.00%**	100.00%	Investment in game development entities
Delicious Bookmark (Beijing) Information Technology Co., Ltd. (美味書簽（北京）信息技術有限公司)	mainland China, limited liability company	RMB1,081,157	**100.00%**	100.00%	Information services
Suzhou Duopule information technology Co., Ltd. (蘇州多普勒信息科技有限公司)	mainland China, limited liability company	RMB3,000,000	**100.00%**	100.00%	Information services

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

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

Amendments to IFRS 16	COVID-19-related rent concessions
Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16	Phase 2 amendments to interest rate benchmark reform

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

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

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

		Effective for accounting year beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous contract — cost of fulfilling a contract	1 January 2022
Annual Improvements	Improvements to IFRS Standards 2018–2020	1 January 2022
Amendments to IAS 1	Classification of Liabilities as current and non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and positions of the Group is expected when they become effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

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

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

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

2.2.1 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into a series of contractual arrangements (collectively, the "Contractual Arrangements") with, among others, X.D. Network Inc., which enable the WFOE and the Group to:

- exercise effective control over X.D. Network Inc. and its PRC subsidiaries with restricted operation (collectively, the "PRC Consolidated Affiliated Entities");

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 Business combination

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

2.2.3 Changes in ownership interests in subsidiaries without change of control

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

2.2.4 Disposal of subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Separate financial statements

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

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

2.4 Associates

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

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

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

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currencies of the Company and its subsidiaries outside mainland China are USD, while the functional currencies of the Company's subsidiaries in the mainland China are RMB. As the major operations of the Group during the reporting period are within the mainland China, the Group determined to present its Financial Information in RMB (unless otherwise stated).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

2.6.2 Transactions and balances

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

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

2.6.3 Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income.

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

2.7 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

• Servers and other equipment	3 years
• Furniture and appliances	5 years
• Vehicles	4 years
• Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.8 Intangible assets

2.8.1 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the aggregate purchase consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes at the operating segment.

2.8.2 Other intangible assets

Other intangible assets mainly include software, game license, domain name and trade name. They are initially recognized and measured at cost if they are separately acquired or at fair value if they are acquired in business combinations. Other intangible assets are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

• Software	2–5 years
• Game license	2–5 years
• Domain name (a)	10 years
• Trade name (b)	2–8 years
• User list	5 years
• Technology (c)	10 years

When determining the length of useful life of an intangible asset, the management take into account the (i) estimated period during which such asset can bring economic benefits to the Group; and (ii) the useful life estimated by comparable companies in the market.

(a) The management determined that the domain name related to one of the Group's major games, Ragnarok M, has a useful life of 10 years based on the estimated lifespan of such game, during which it could bring economic benefits to the Group.

(b) The management determined that the trade name related to Yiwan has a useful life of 8 years based on the platform's popularity and great user base in local market.

(c) The management determined that the technology related to Lean Cloud has a useful life of 10 years based on the technology update cycle.

2.8.3 Research and development

Research expenditures are recognized as an expenses as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred. There were no development costs meeting these criteria and capitalized as intangible assets as of 31 December 2020, and 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

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

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

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

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

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

2.10.2 Recognition and derecognition

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

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

2.10.3 Measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

2.10.3 Measurement (Continued)

Debt instruments

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

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

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

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other (losses)/gains, net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognised in other (losses)/gains in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.10.4 Impairment

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

- trade receivables; and
- other receivables

While cash and cash equivalents, restricted cash and short term investments at amortized cost are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

2.10.4 Impairment (Continued)

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss.

2.11 Offsetting financial instruments

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

2.12 Trade and other receivables

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

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

2.13 Cash and cash equivalents

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

2.14 Share capital

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

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities unless payment is not due within 12 months after the reporting period.

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

2.16 Current and deferred income tax

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

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

2.16.1 Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Current and deferred income tax (Continued)

2.16.2 Deferred income tax inside basis differences

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

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

2.16.3 Deferred income tax outside basis differences

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

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

2.16.4 Offsetting

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

2.17 Employee benefits

2.17.1 Pension and social obligations

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

2.17.2 Employee leave entitlements

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

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

2.17.3 Bonus plans

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee benefits (Continued)

2.17.4 Share-based payments

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (options) is recognized as an expense in the consolidated statement of comprehensive income with a corresponding increase in equity.

In terms of the shares, options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (options) granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions; and
- Including the impact of any non-vesting conditions.

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

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

When the share options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. Where there is any modification of terms and conditions which increases the fair value of the equity instruments granted, the Group includes the incremental fair value granted in the measurement of the amount recognized for the services received over the remainder of the vesting period. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as of the date of the modification. An expense based on the incremental fair value is recognized over the period from the modification date to the date when the modified equity instruments vest in addition to any amount in respect of the original instrument, which should continue to be recognized over the remainder of the original vesting period.

2.18 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition

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

2.19.1 Game operating revenue

The Group is a publisher of online games developed by third party game developers or itself. The Group licenses online games from game developers and earns game publishing service revenue by making a localized version of the licensed games and publishing them to the game players through distribution channels, e.g. online application stores (such as Apple Inc.'s App Store ("Apple App") and Google LLC's Google Play ("Google App")), as well as web-based and mobile game portals (collectively referred to as "Distribution Channels"), including the Group's own websites.

The games licensed to the Group, or developed by the Group are operated under (i) free-to-play model whereby game players can play the games free of charge and are charged for the purchase of in-game virtual items (the "Online Game") via payment channels, such as the third-party internet payment systems (the "Payment Channels"); or (ii) pay-to-play model whereby game players are charged for a fixed amount when downloading the games (the "Premium Game"). Upon the completion of download and installation of the games to the game players' devices, all functionalities of the games have been fully delivered. Players can then play the games on their device without real time connection to the internet.

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

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

(a) The Group acts as principal

During the reporting period, the Group self-developed mobile games or entered into game license arrangements with game developers, under which the Group takes primary responsibilities of game operation. The Group considered itself as a principal in these arrangements and recorded revenues on a gross basis.

Under the arrangements that the Group takes primary responsibilities, the Group considered that the (i) the Group is generally the initiator who raise ideas and plans for providing specification, modification or update of the game products or services desired by the game players; (ii) for certain licensed games that the Group made a localized version, the Group's costs incurred during developing the games are more than the game developer. The game developer is merely providing intellectual properties of character image and figures, the Group is providing game services and products relating to gaming experience to game players; (iii) besides publishing, providing payment solution and marketing promotion, the Group has the right to determine the pricing of in-game virtual items or downloading the pay-to-play games, as well as the selection of Distribution Channels and the Payment Channels. Thus, the Group views game players to be its customers and considers itself as the principal. Accordingly, the Group records the online game revenue under such arrangements on a gross basis. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developer are recorded as cost of revenues.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

2.19.1 Game operating revenue (Continued)

(a) The Group acts as principal (Continued)

Where the Group is acting as a principal under the free-to-play model, the Group has determined that it is obligated to provide on-going services to game players, who purchased virtual items to gain an enhanced game-playing experience, and accordingly, revenue is recognised over the estimated lifespans of the respective virtual items. The estimated lifespans of different virtual items are determined by the management based on the expected player relationship periods, on a game by game basis. The Group recognizes the revenues derive from sale of virtual items as below:

Consumable virtual items represent items that are extinguished after consumption in the form of fixed charges levied on each round of games played. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from deferred revenue) when the items are consumed and the related services are rendered.

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

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

Where the Group is acting as a principal under the pay-to-play model, the Group has determined all revenue recognition criteria are met upon players' confirmation of the purchase request and completion of download of the games. The Group has no additional performance obligations to the game players after the completion of the corresponding game purchase and downloading. Therefore, the Group recognizes revenue from game players upon the purchases and completion of downloading for this type of arrangement. Commission fees paid to Distribution Channels and Payment Channels and license fees paid to third party game developers are recorded.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

2.19.1 Game operating revenue (Continued)

(b) *The Group acts as agents of game developer*

Under those arrangements that the developer take primary responsibilities mentioned above, the Group considers that the (i) game developers are responsible for providing the game products desired by the game players; (ii) the costs incurred by the developers to develop the games are more than the licensing costs and game localizations costs incurred by the Group; (iii) the hosting and maintenance of game servers for running the online mobile games is the responsibility of the developers, the developers have the right to review and approve the pricing of in-game virtual items and the specification, modification or update of the game made by the Group. The Group's responsibilities are publishing, providing payment solution and market promotion service for the license game, and thus the Group views the game developers to be its customers and considers itself as the agent of the game developers in the arrangements with game players. The Group considers it provides a series of distinct services that are substantially the same and that have the same pattern of transfer to the game developers, and allocated the variable consideration based on certain percentage of sales of in-game virtual items to each day of distinct services and recognizes revenues in the month when related sales occur.

As the Group is responsible for identifying, contracting with and maintaining the relationships of the Distribution Channels and Payment Channels, commission fees paid to the Distribution Channels and Payment Channels are presented on a gross basis and included in cost of revenues. The Group considers it provides services to the game developers for the reasons identified above as it has been given latitude by the game developers in selecting Distribution Channels and Payment Channels for its service to the game developers.

Different from the above analysis, for games cooperated with Apple/Google App, the game developers are fully aware of Apple/Google App's roles and responsibilities. The Group considered that Apple/Google App and itself provide services to the game developers together, as the Group does not have the latitude in selecting and negotiating with Apple/Google App and does not have the primary responsibility to game developers for the service provided by them. Commissions charged by Apple/Google App are deducted from revenue.

(c) *The Group acts as agents of game publishers*

The Group also engaged in providing game maintenance and game operation services to game publishers, including game promotion services, customer services, technical support services and game localization services. The Group considers it provides a series of distinct services that are substantially the same and that have the same pattern of transfer to the game publisher, and allocated the variable consideration based on certain percentage of sales of in-game virtual items to each day of distinct services and recognizes game maintenance and game operation services to the game publisher in the month when related sales occur.

2.19.2 Online marketing service revenue

Online marketing service revenue mainly comprise revenues derived from performance based online marketing service provided to game developers, game publishers and their agencies.

Revenue from performance-based online marketing service is recognized when relevant specific performance measures (such as delivery of pay-for-click, pay-for-download etc.) are fulfilled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

2.19.3 Other revenues

The Group also generates revenue from providing data storage and instant data transmission services and selling game-related merchandise. Revenue is recognized when the service is rendered or control of merchandise is transferred.

2.19.4 Practical expedients applied

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

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

2.20 Contract liabilities

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

2.21 Interest income

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

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Interest income from wealth management products is included in "Fair value changes on investments measured at fair value through profit or loss ".

2.22 Government subsidies

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

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

Government subsidies relating to the purchase of property, plant and equipment, and other non-current assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.24 Leases

The Group leases properties as lessee. Rental contracts are typically made for fixed periods of 1 to 6 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and
- restoration costs.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in consolidated statement of comprehensive income Short-term leases are leases with a lease term of 12 months or less and leases with a remaining term of 12 months or less as of the date of initial adoption of IFRS 16.

The right-of-use assets and the lease liabilities are present separately on the consolidated statement of financial position.

The Group applied the practical expedient by electing not to separate the non-lease components, such as maintenance services provided by the landlord from lease components for the property rental contacts, and instead account for each lease component and any associated non-lease components as a single lease component.

Both deferred tax assets and deferred tax liabilities are recognized on the initial recognition of right-of-use assets and lease liabilities and are offset in the consolidated statements of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases (Continued)

The group has adopted Amendment to IFRS 16-Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a. 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; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

The group has early adopted Amendment to IFRS 16-Covid-19-Related Rent Concessions beyond 30 June 2021, which extended the practical expedient to lease payments that were due on or before 30 June 2022. The group has applied the practical expedient to all qualifying COVID-19-related rent concessions.

2.25 Convertible bonds

The component parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

The Group assesses if the embedded derivatives in respect of the early redemption features are deemed to be clearly and closely related to the host debt contract. Embedded derivatives need not be separated if they are regarded as closely related to its host contract. If they are not, they would be separately accounted for.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

3.1 Financial risk factors

(a) Market risk

Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. The Group does not hedge against any fluctuation in foreign currency during the years ended 31 December 2020 and 2021.

For the Group's subsidiaries in mainland China whose functional currency is RMB, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, net profits would have been approximately RMB16.1 million and RMB8.9 million, higher/lower for the years ended 31 December 2020 and 2021 respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

Price risk

The Group is exposed to price risk in respect of long-term and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for cash and cash equivalents and short-term investments measured at amortized cost, and details of which have been disclosed in Note 24 and Note 23, respectively.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term investments, trade receivables, deposits and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Credit risk of cash and cash equivalents and short-term investment measured

To manage risk arising from cash and cash equivalents and short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China. There has been no recent history of default in relation to these financial institutions. The expected credit loss is immaterial.

(ii) Credit risk of trade receivables

Trade receivables at the end of each reporting period were due from Distribution Channels and game publishers, online marketing service customers, as well as due from related parties. If the strategic relationship with Distribution Channels and game publishers and online marketing service customers are terminated or scaled-back; or if Distribution Channels and game publishers and online marketing service customers alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's corresponding trade receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with Distribution Channels and game publishers and online marketing service customers to ensure the effective credit control. In view of the history of cooperation with Distribution Channels and game publishers and online marketing service customers and the sound collection history of receivables due from them, the directors of the Group believe that the credit risk inherent in the Group's outstanding trade receivable balances due from Distribution Channels and game publishers and online marketing service customers is low.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)J

(ii) Credit risk of trade receivables (Continued)

During the years ended 31 December 2020 and 2021 the Group analysed the credit risk related to amount due from related parties are performing and applied the expected credit loss rate at 0.35% to estimate the impairment provision for the 12 months expected credit loss of the amount due from related parties.

(iii) Credit risk of deposits and other assets

For deposits and other assets, management makes periodic collective assessments as well as individual assessment on the recoverability of deposits and other assets based on historical settlement records and past experiences.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counter party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counter party;
- significant increases in credit risk on other financial instruments of the same counter party;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the counter party, including changes in the payment status of debtor in the Group and changes in the operating results of the counter party.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 360 days of when they fall due.

The Group makes periodic assessment on the credit risk of the deposits and other assets based on the history of cooperation with customers, settlement records and past experience, the directors believe that the credit risk inherent in the outstanding deposits and other assets due from the debtors is not material.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories deposits and other assets for write off when a debtor fails to make contractual payments/repayable demanded greater than 720 days past due. Where deposits and other assets have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Over 2 years RMB'000	Total RMB'000
As at 31 December 2021				
Trade payables	**205,390**	**—**	**—**	**205,390**
Advance from customers	**37,025**	**—**	**—**	**37,025**
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	**47,041**	**—**	**—**	**47,041**
Lease liabilities	**55,805**	**36,922**	**58,677**	**151,404**
Convertible bonds	**22,315**	**22,315**	**1,840,983**	**1,885,613**
	367,576	**59,237**	**1,899,660**	**2,326,473**
As at 31 December 2020				
Trade payables	164,560	—	—	164,560
Advance from customers	21,215	—	—	21,215
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	19,597	—	—	19,597
Lease liabilities	50,171	38,975	54,531	143,677
	255,543	38,975	54,531	349,049

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other owners and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as convertible bonds and lease liabilities less cash and cash equivalents. Total equity is calculated as "equity" as shown in the consolidated statement of financial position including non-controlling interests. As at 31 December 2020 and 2021, the gearing ratio of the Group is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Net debt (Note 36(b))	**1,342,539**	2,189,519
Total equity	**2,382,407**	2,580,126
Gearing ratio (%)	**56%**	85%

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements.

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 and 2021, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2020 and 2021, none of the Group's financial liabilities are measured at fair value, and none of the Group's financial assets are measured at fair value using level 1 or level 2 inputs. The following table presents the Group's financial assets that are measured at fair value using level 3 inputs:

		As at 31 December	
		2021	2020
	Notes	**RMB'000**	RMB'000
Long-term investments measured at fair value through profit or loss	20	**30,102**	23,670
Short-term investments measured at fair value through profit or loss	23	**689,518**	—
		719,620	23,670

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items including investments in unlisted companies and wealth management products issued by commercial banks for the years ended 31 December 2020 and 2021.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Fair value measurements using significant unobservable inputs (level 3) (Continued)

(i) Investments in unlisted companies

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**23,670**	29,918
Additions	**7,000**	4,500
Changes in fair value	**(565)**	(10,685)
Currency translation differences	**(3)**	(63)
At the end of the year	**30,102**	23,670
Net unrealized gains/(losses)	**(565)**	(10,685)

(ii) Wealth management products issued by commercial banks

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**—**	497,363
Addition	**1,092,275**	973,870
Changes in fair value	**9,912**	9,259
Disposal	**(412,552)**	(1,480,492)
Foreign exchange gain/(loss), net	**(117)**	—
	689,518	—
Net unrealized gains	**3,695**	—

(c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the use of quoted market prices or dealer quotes for similar instruments;
- the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate;

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(c) Valuation process and techniques (Continued)

- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and
- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc..

There were no change to valuation techniques during the reporting period.

(d) Valuation inputs and relationship to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value as at 31 December 2021 RMB'000	Fair value as at 31 December 2020 RMB'000	Unobservable inputs	Range of inputs as at 31 December 2021	Range of inputs as at 31 December 2020	Relationship of unobservable inputs to fair value
Investments in unlisted companies	**30,102**	23,670	Expected volatility	**40.00%–50.10%**	51.23%–58.12%	The higher the expected volatility, the higher the fair value
			Discount for lack of marketability ("DLOM")	**25%–25%**	25%–30%	The higher the DLOM, the lower the fair value
Wealth management products issued by commercial banks	**689,518**	—	Expected rate of return	**0.81%–4.59%**	N/A	The higher the expected rate of return, the higher the fair value

If expected volatility is 10% higher, the fair value of investments in unlisted companies will be RMB0.14 million and RMB0.82 million higher for the years ended 31 December 2020 and 2021 respectively, and profit after tax will be RMB0.11 million and RMB0.82 million higher respectively.

If expected volatility is 10% lower, the fair value of investments in unlisted companies will be RMB0.13 million and RMB0.81 million lower for the years ended 31 December 2020 and 2021 respectively, and profit after tax will be RMB0.1 million and RMB0.81 million lower respectively.

If DLOM is 10% higher/lower, the fair value of investments in unlisted companies will be RMB0.72 million and RMB0.20 million lower/higher for the years ended 31 December 2020 and 2021 respectively, and profit after tax will be RMB0.54 million and RMB0.20 million lower/higher respectively.

If expected rate of return is 10% higher/lower, the fair value of wealth management products issued by commercial banks will be nil and RMB1.0 million higher/lower for the years ended 31 December 2020 and 2021 respectively, and profit after tax will be nil and RMB1.0 million higher/lower respectively.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Estimates of lifespan of in-game virtual items in the Group's online game services

As described in Note 2.19, the Group recognizes certain revenue from sale of virtual items in online game services rateably over the lifespan of in-game virtual items. The determination of lifespan of in-game virtual items with reference of Player Relationship Period is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the lifespan of in-game virtual items as a result of new information will be accounted for as a change in accounting estimate.

4.2 Determination of fair value of long-term and short-term investments

The fair value of long-term and short-term investments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

4.3 Principal versus agent considerations

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Distribution Channels, the Group's responsibilities in publishing and operating the licensed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (a) is the primary obligor to the game developers and game players in the arrangements; (b) has latitude in establishing the selling price of virtual items; (c) changes the products or performs part of the services; (d) has involvement in the determination of product and service specifications; and (e) has the rights to determine Distribution Channels and Payment Channels.

4.4 Expected credit loss for receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 3.1(b) and Note 22. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of comprehensive income.

4.5 Income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.6 Recoverability of non-financial assets

The Group tests whether goodwill has suffered any impairment on an annual basis or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Judgment is required (i) to identify any impairment indicators existing for any of the Group's goodwill or other non-financial assets (ii) to determine appropriate impairment approaches for impairment review purposes, and (iii) to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statement.

4.7 Share-based compensation

The Group has granted share options to its employees and directors. The fair value of the options is determined by the Black-Scholes option-pricing model at the grant date, which is to be expensed over the respective vesting periods. Significant estimates on assumptions, including risk-free interest rate, expected volatility, dividend yield, and terms, are made by the directors and third-party valuers.

5 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

Game segment

The game segment offers game publishing and operating services on its own and via other Distribution Channels. Revenues from the game segment are primarily derived from game publishing and operating services. The game segment also earns online marketing service revenue from in-game marketing and promotion services.

Information service segment

The information service segment offers online marketing services to game developers, game publishers or their agents. Revenues from the information service segment are primarily derived from performance-based online marketing services.

The CODM assesses the performance of the operating segments mainly based on segment revenues and cost of revenues of each operating segment. Thus, segment result would present revenues, cost of revenues and gross profit for each segment, which is in line with CODM's performance review.

The Group's cost of revenues for the game segment primarily consists of (a) commission paid to Payment Channels and Distribution Channels; (b) sharing of proceeds to game developers; (c) bandwidth and server custody fees; (d) amortization of intangible assets; and (e) employee benefit expenses.

5 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

The Group's cost of revenues for the information service segment primarily consists of (a) bandwidth and server custody fees; (b) employee benefits expenses; and (c) amortization of intangible assets.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

As at 31 December 2020 and 2021, substantially all of the non-current assets of the Group were located in the PRC.

The reconciliation of gross profit to profit before income tax is shown in the consolidated statement of comprehensive loss.

The segment information provided to the Group's CODM for the reportable segments is as follows:

	Year ended 31 December 2021		
	Game segment RMB'000	Information service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	1,784,032	—	1,784,032
— Premium Games (pay-to-play)	203,967	—	203,967
Subtotal	1,987,999	—	1,987,999
Online marketing service revenue	16,309	685,844	702,153
Others	6,512	6,509	13,021
Total revenues	2,010,820	692,353	2,703,173
Cost of revenues	(1,283,763)	(193,167)	(1,476,930)
Gross profit	727,057	499,186	1,226,243
Gross margin	36%	72%	45%

5 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

	Year ended 31 December 2020		
	Game segment RMB'000	Information service segment RMB'000	Total RMB'000
Game operating revenues			
— Online Games (free-to-play)	2,148,320	—	2,148,320
— Premium Games (pay-to-play)	143,670	—	143,670
Subtotal	2,291,990	—	2,291,990
Online marketing service revenue	36,044	514,490	550,534
Others	3,933	1,096	5,029
Total revenues	2,331,967	515,586	2,847,553
Cost of revenues	(1,240,906)	(74,619)	(1,315,525)
Gross profit	1,091,061	440,967	1,532,028
Gross margin	47%	86%	54%

Revenues of approximately RMB1,060 million and RMB948 million for the years ended 31 December 2020 and 2021, respectively, were from five largest single external customers.

The following table summarizes the percentage of revenue from two single customers individually exceeding 10% of the Group's revenue during the year ended 31 December 2020 and 2021, respectively.

	Year ended 31 December	
	2021	2020
Game operating revenues		
Customer A	*	14%
Information service revenue		
Customer B	**18%**	15%

* Revenue from Customer A did not exceed 10% of total revenues during the year ended 31 December 2021.

5 SEGMENT INFORMATION AND REVENUE (Continued)

Information service segment (Continued)

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the years ended 31 December 2020 and 2021, respectively:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Service transferred overtime	**1,265,170**	1,506,594
Service transferred at a point of time	**1,438,003**	1,340,959
	2,703,173	2,847,553

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended 31 December 2020 and 2021, respectively:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Mainland China	**953,557**	999,578
Other areas (Note a)	**1,034,442**	1,292,412
Total	**1,987,999**	2,291,990

(a) Other areas revenue mainly include revenue from local versions operated in Southeast Asia, Hong Kong, Macao, Taiwan and South Korea.

6 EXPENSES BY NATURE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Employee benefits expenses (Note 7)	**1,417,268**	753,294
Promotion and advertising expenses	**667,727**	575,543
Sharing of proceeds to game developers	**467,953**	477,262
Commissions charged by Payment Channels and Distribution Channels	**398,895**	423,825
Bandwidth and server custody fee	**291,651**	192,817
Professional and technical services fee	**160,577**	115,991
Depreciation of property, plant and equipment (Note 14) and right-of-use assets (Note 15)	**118,821**	73,312
Amortization of intangible assets (Note 16)	**68,496**	68,311
Office expenses	**49,607**	27,013
Impairment of non-financial assets (Note 16 and 21)	**29,929**	30,833
VAT input transfer out and tax surcharges	**23,562**	23,265
Rental expenses and utilities	**20,403**	13,541
Auditor's remuneration		
— Audit service	**5,625**	4,175
— Non-audit service	**3,330**	1,287
Net impairment (reversal)/losses on financial assets	**(262)**	1,624
Others	**10,549**	5,872
Total	**3,734,131**	2,787,965

7 EMPLOYEE BENEFITS EXPENSES

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,119,211**	641,007
Pension and other social security costs (Note a)	**184,455**	64,639
Share-based compensation expenses (Note 34)	**27,619**	—
Other benefits	**85,983**	47,648
Total	**1,417,268**	753,294

(a) Pension — defined contribution plans

During the year ended 31 December 2021, there were no forfeited contributions under the defined contribution schemes. Accordingly, no forfeited contribution was utilized during the year, and there was no forfeited contribution available as of 31 December 2021, to reduce the level of contributions.

7 EMPLOYEE BENEFITS EXPENSES (Continued)

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

	Year ended 31 December 2021					
	Fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Share-based compensation expenses RMB'000	Other benefits RMB'000	Total RMB'000
Chairman						
Huang Yimeng	—	2,767	108	1,721	2	4,598
Executive directors						
Dai Yunjie	—	4,986	108	1,064	—	6,158
Fan Shuyang	—	1,463	122	—	—	1,585
Shen Sheng (resigned on 26 February 2021)	—	424	19	—	—	443
Non-Executive director						
Liu Wei	—	—	—	—	—	—
Independent non-executive directors						
Pei Dapeng	123	—	—	—	—	123
Xin Quandong	123	—	—	—	—	123
Liu Qianli	123	—	—	—	—	123
Total	369	9,640	357	2,785	2	13,153

	Year ended 31 December 2020				
	Fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Other benefits RMB'000	Total RMB'000
Chairman					
Huang Yimeng	—	2,354	92	—	2,446
Executive directors					
Dai Yunjie	—	1,826	92	—	1,918
Shen Sheng	—	2,506	77	—	2,583
Fan Shuyang	—	1,020	77	—	1,097
Independent non-executive directors					
Gao Shaoxing (resigned on 17 December 2020)	80	—	—	—	80
Xin Quandong	80	—	—	—	80
Pei Dapeng	80	—	—	—	80
Total	240	7,706	338	—	8,284

7 EMPLOYEE BENEFITS EXPENSES (Continued)

(b) Directors' and chief executive's emoluments (Continued)

(i) Directors' retirement and termination benefits

No director's retirement or termination benefit subsisted at the end of each year disclosed or at any time during the years ended 31 December 2020 and 2021.

(ii) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available director's services subsisted at the end of the each year disclosed or at any time during the years ended 31 December 2020 and 2021.

(iii) Information about borrowings, quasi-borrowings and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No borrowings, quasi-borrowings and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of each year disclosed or at any time during the years ended 31 December 2020 and 2021.

(iv) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of or at any time during the years ended 31 December 2020 and 2021.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2020 and 2021, include 0 and 1 director, which is Dai Yunjie, respectively. The bonuses of five highest paid individuals are fixed in labor contracts and did not have bonuses which are discretionary or are based on the Company's, the Group's or any member of the Group's performance during the financial year. The aggregate amounts of emoluments for the remaining 5 and 4 individuals for each of the years ended 31 December 2020 and 2021, are set out below:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits	**31,199**	18,402
Contribution to pension scheme	**241**	212
Discretionary bonuses	**—**	—
Inducement fee to join or upon joining the Group	**—**	—
Compensation for loss of office:		
— contractual payment	**—**	—
— other payment	**—**	—
Total	**31,440**	18,614

	Year ended 31 December	
	2021	2020
Emolument bands (in HKD)		
HKD3,000,001 – HKD3,500,000	**—**	1
HKD3,500,001 – HKD4,000,000	**—**	2
HKD4,500,001 – HKD5,000,000	**—**	1
HKD5,500,001 – HKD6,000,000	**—**	1
HKD6,500,001 – HKD7,000,000	**1**	—
HKD7,500,001 – HKD8,000,000	**1**	—
HKD8,000,001 – HKD8,500,000	**1**	—
HKD15,000,001 – HKD15,500,000	**1**	—
Total	**4**	5

8 FAIR VALUE CHANGES ON INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Long-term investments (Note 20)	**(565)**	(10,685)
Short-term investments	**9,912**	9,259
Total	**9,347**	(1,426)

9 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government subsidies	**28,247**	25,832
Interest income from short-term investments measured at amortized cost	**16,616**	—
Others	**130**	334
Total	**44,993**	26,166

There are no unfilled conditions or contingencies related to the above government subsidies.

10 OTHER GAINS, NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Foreign exchange gain, net	**21,447**	2,785
Dilution gain (Note 18(c))	**843**	—
Others	**(1,193)**	576
Total	**21,097**	3,361

11 FINANCE (COST)/INCOME, NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income from bank deposits	**13,533**	15,505
Finance costs		
Interest expenses on convertible bonds	**(32,962)**	—
Interest expenses on lease liabilities	**(6,390)**	(3,466)
Bank charges	**(912)**	(520)
Finance (cost)/income, net	**(26,731)**	11,519

12 INCOME TAX

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

British Virgin Islands

Under the current laws of the British Virgin Islands, entities incorporated in British Virgin Islands are not subject to tax on their income or capital gains.

Hong Kong

Hong Kong profits tax rate is 16.5%.

Singapore

Singapore profits tax rate is 17%.

PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the years ended 31 December 2020 and 2021.

Certain subsidiary of the Group in the PRC, accordingly, is qualified as "high and new technology enterprise" and entitled to a preferential income tax rate of 15% during the years ended 31 December 2020 and 2021.

Certain subsidiary is accredited as a "software enterprise" under the relevant PRC Laws and regulations. They are exempt from CIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the "tax holiday").

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the years ended 31 December 2020 and 2021.

12 INCOME TAX (Continued)

PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors.

Since the Group intends to permanently reinvest earnings to further expand its businesses in PRC, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability on WHT was accrued as at the end of each reporting period. The Company's subsidiaries in mainland China did not have undistributed earnings as of 31 December 2021.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax	**19,628**	57,194
Deferred income tax (Note 17)	**(58,228)**	(5,996)
Total income tax expenses	(38,600)	51,198

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% for the years ended 31 December 2020 and 2021, being the tax rate of the major subsidiaries of the Group.

The difference is analysed as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
(Loss)/profit before income tax	**(955,888)**	106,986
Tax calculated at statutory income tax rate of 25% in mainland China	**(238,972)**	26,746
Tax effects of:		
Effect of different tax rates available to different jurisdictions	**6,791**	(9,764)
Withholding tax on earnings expected to be remitted by subsidiaries	**—**	19,926
Preferential income tax rates applicable to subsidiaries	**56,705**	1,349
Expenses not deductible for income tax purposes	**36**	1,069
Super Deduction for research and development expenses	**(81,544)**	(50,361)
Utilization of previously unrecognized tax losses and temporary differences	**(19,812)**	—
Tax losses for which no deferred income tax assets were recognized	**240,258**	60,880
Temporary differences for which no deferred income tax assets were recognized, net	**(2,062)**	1,353
Total income tax expenses	(38,600)	51,198

13 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of shares in issue during the respective years.

	Year ended 31 December	
	2021	2020
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(863,811)**	9,145
Weighted average number of shares in issue (thousands)	**464,566**	432,452
Basic (loss)/earnings per share (in RMB)	**(1.86)**	0.02

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2021, the Group had potential dilutive ordinary shares arising from convertible bonds and share options. As the Group incurred losses for the year ended 31 December 2021, the dilutive potential ordinary shares arising from convertible bonds and share options were not included in the calculation of diluted loss per share as their inclusion would be anti-dilution.

For the year ended 31 December 2020, the Company had potential dilutive ordinary shares arising from OAO.

	Year ended 31 December 2020
Profit attributable to equity holders of the Company (RMB'000)	9,145
Weighted average number of shares in issue (thousands)	432,452
Adjustments for OAO (thousands)	13
Weighted average number of shares for the calculation of diluted EPS	432,465
Diluted earnings per share (in RMB)	0.02

14 PROPERTY, PLANT AND EQUIPMENT

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2020						
Cost	69,013	22,110	1,318	—	86,804	179,245
Accumulated depreciation	(51,131)	(11,537)	(450)	—	(29,189)	(92,307)
Net book amount	17,882	10,573	868	—	57,615	86,938
Year ended 31 December 2020						
Opening net book amount	17,882	10,573	868	—	57,615	86,938
Additions	33,282	13,558	373	22,519	2,652	72,384
Depreciation	(13,985)	(3,994)	(415)	—	(27,457)	(45,851)
Transfers	—	—	—	(19,733)	19,733	—
Disposal	(47)	(832)	—	—	—	(879)
Closing net book amount	37,132	19,305	826	2,786	52,543	112,592
At 31 December 2020						
Cost	92,448	29,725	1,691	2,786	80,000	206,650
Accumulated depreciation	(55,316)	(10,420)	(865)	—	(27,457)	(94,058)
Net book amount	37,132	19,305	826	2,786	52,543	112,592

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Assets under construction RMB'000	Leasehold improvements RMB'000	Total RMB'000
Year ended 31 December 2021						
Opening net book amount	37,132	19,305	826	2,786	52,543	112,592
Business combination (Note 35)	173	18	—	—	—	191
Additions	29,351	8,189	850	63,684	—	102,074
Depreciation	(22,284)	(6,171)	(552)	—	(37,125)	(66,132)
Transfers	—	—	—	(55,148)	55,148	—
Disposal	(108)	(30)	—	—	—	(138)
Currency translation differences	(5)	5	—	—	(26)	(26)
Closing net book amount	44,259	21,316	1,124	11,322	70,540	148,561
At 31 December 2021						
Cost	115,579	37,792	2,540	11,322	135,116	302,349
Accumulated depreciation	(71,320)	(16,476)	(1,416)	—	(64,576)	(153,788)
Net book amount	44,259	21,316	1,124	11,322	70,540	148,561

Depreciation expenses have been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Cost of revenues	**14,913**	7,276
Selling and marketing expenses	**6,005**	2,445
Research and development expenses	**28,802**	25,804
General and administrative expenses	**16,412**	10,326
	66,132	45,851

15 RIGHT-OF-USE ASSETS

Properties	Year ended 31 December 2021 RMB'000	2020 RMB'000
At the beginning of the year		
Cost	**221,915**	102,543
Accumulated depreciation	**(92,360)**	(64,899)
Net book amount	**129,555**	37,644
Opening net book amount	**129,555**	37,644
Additions (Note a)	**65,245**	119,372
Depreciation (Note 6)	**(52,689)**	(27,461)
Disposal	**(2,159)**	—
Currency translation differences	**(52)**	—
Closing net book amount	**139,900**	129,555
At the end of the year		
Cost	**283,901**	221,915
Accumulated depreciation	**(144,001)**	(92,360)
Net book amount	**139,900**	129,555

(a) Additions in right-of-use assets of the Group amounting to RMB119 million and RMB65 during the years ended 31 December 2020 and 2021, respectively, mainly are offices with a lease period from 3 to 6 years.

The consolidated statement of comprehensive loss and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended 31 December 2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets (Note 6)	**52,689**	27,461
Interest expenses (Note 11)	**6,390**	3,466
Expenses relating to short-term leases	**5,124**	3,972
The cash outflow for leases payment related to short-term lease as operating activities	**5,231**	3,985
The cash outflow for leases as financing activities	**61,345**	32,029

Certain subsidiaries of the Group received rent exemption of RMB0.33 million in 2020 due to Covid-19. The exemption did not result in substantive change to other terms or conditions of the lease. The Group applied the practical expedient and did not account for it as lease modifications. The lease payment exempted was recognized in "Other income".

16 INTANGIBLE ASSETS

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Total RMB'000
At 1 January 2020							
Cost	224,368	5,289	11,056	17,100	8,000	101,670	367,483
Accumulated amortization	(146,393)	(2,361)	(7,433)	(6,412)	(4,800)	–	(167,399)
Impairment	(1,146)	–	–	–	–	–	(1,146)
Net book amount	76,829	2,928	3,623	10,688	3,200	101,670	198,938
Year ended 31 December 2020							
Opening net book amount	76,829	2,928	3,623	10,688	3,200	101,670	198,938
Additions	55,653	–	31,690	–	–	–	87,343
Amortization	(56,035)	(504)	(8,034)	(2,138)	(1,600)	–	(68,311)
Impairment (Note a)	(15,861)	–	–	–	–	–	(15,861)
Currency translation differences	(2,787)	–	–	–	–	–	(2,787)
Closing net book amount	57,799	2,424	27,279	8,550	1,600	101,670	199,322
At 31 December 2020							
Cost	284,611	5,289	42,746	17,100	8,000	101,670	459,416
Accumulated amortization	(210,463)	(2,865)	(15,467)	(8,550)	(6,400)	–	(243,745)
Impairment	(16,349)	–	–	–	–	–	(16,349)
Net book amount	57,799	2,424	27,279	8,550	1,600	101,670	199,322

	Game license RMB'000	Domain name RMB'000	Software RMB'000	Trade name RMB'000	User list RMB'000	Goodwill RMB'000	Technology RMB'000	Total RMB'000
Year ended 31 December 2021								
Opening net book amount	57,799	2,424	27,279	8,550	1,600	101,670	–	199,322
Business combination (Note 35)	–	–	–	–	–	65,434	26,181	91,615
Additions	12,599	–	18,838	–	–	–	–	31,437
Amortization	(45,987)	(529)	(16,716)	(2,137)	(1,600)	–	(1,527)	(68,496)
Impairment (Note a)	(4,581)	–	–	–	–	–	–	(4,581)
Currency translation differences	(497)	–	8	–	–	–	–	(489)
Closing net book amount	19,333	1,895	29,409	6,413	–	167,104	24,654	248,808
At 31 December 2021								
Cost	296,580	5,289	61,584	17,100	–	167,104	26,181	573,838
Accumulated amortization	(256,634)	(3,394)	(32,175)	(10,687)	–	–	(1,527)	(304,417)
Impairment	(20,613)	–	–	–	–	–	–	(20,613)
Net book amount	19,333	1,895	29,409	6,413	–	167,104	24,654	248,808

(a) During the year ended 31 December 2020 and 2021, certain game licenses of the game segment were impaired by RMB15.9 million and RMB4.6 million due to underperformance of related games. Management determined the recoverable amounts of the game licenses based on their value in use, which is the expected game revenue to be generated in the remaining contractual period. The management estimated the expected game revenue with reference to those games' gross billings trend, the monthly paying users and paying ratio over the past period.

16 INTANGIBLE ASSETS (Continued)

Amortization expenses have been charged to the consolidated statement of comprehensive loss as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of revenues	**50,670**	58,927
Research and development expenses	**11,783**	7,133
General and administrative expenses	**6,043**	2,251
	68,496	68,311

Impairment of goodwill

The Group carries out its annual impairment test on goodwill by comparing the recoverable amount of a CGU to the carrying amount. The recoverable amount of a CGU was determined based on the higher of (i) its value-in-use and (ii) its fair value less cost of disposal.. Value-in-use is calculated based on discounted cash flows expected to be derived from the respective CGU using pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flow beyond the 5-year period is extrapolated using the estimated terminal growth rates stated below. The Group believes that it is appropriate to cover a 5-year period in its cash flow projection, because it captures the development stage of the Group's businesses during which the Group expects to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

Management reviews the business performance based on type of business and monitors the goodwill at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Game segment	**56,524**	56,524
Information service segment	**110,580**	45,146
	167,104	101,670

16 INTANGIBLE ASSETS (Continued)

Impairment of goodwill (Continued)

Impairment review on the goodwill of the Group has been conducted by the management as at 31 December 2020 and 2021 according to IAS 36 "Impairment of assets". The key assumptions used in the value-in-use calculations for significant CGUs allocated with goodwill are as follows:

	As at 31 December	
	2021	2020
Game segment		
Annual revenue growth rate for the 5-year period (%)	**2.9%–30.6%**	3.0%–21.8%
Gross profit rate (%)	**49.7%–51.7%**	52.5%–55.4%
Terminal revenue growth rate (%)	**2.5%**	2.5%
Pre-tax discount rate (%)	**18.4%**	17.5%

	As at 31 December	
	2021	2020
Information service segment		
Annual revenue growth rate for the 5-year period (%)	**5.4%–34.1%**	5.0%–22.9%
Gross profit rate (%)	**80.4%–81.5%**	86.7%–89.6%
Terminal revenue growth rate (%)	**2.5%**	2.5%
Pre-tax discount rate (%)	**21.3%**	21.6%

The budgeted gross margins and revenue growth rates used in the goodwill impairment testing, were determined by the management based on past performance, extensive experiences in the industry and its expectation for business plans and market developments. Discount rates reflect market assessments of the time value and the specific risks relating to the industry.

The headroom of the game and information service CGUs are shown as below:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Game segment	**2,113,045**	3,460,140
Information service segment	**1,021,260**	1,342,893

16 INTANGIBLE ASSETS (Continued)

Impairment of goodwill (Continued)

The Group performs the sensitivity analysis based on the assumption that revenue amount or the discount rate has been changed. Had the estimated key assumption during the forecast period been changed as below the headroom would be decreased to as below:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Game segment		
Revenue growth rate decreased by 10%	**1,464,527**	3,133,587
Gross profit rate decreased by 10%	**720,429**	2,195,939
Terminal revenue growth rate decrease by 10%	**1,947,499**	3,224,910
Discount rate increased by 10%	**1,805,242**	3,018,252
Information service segment		
Revenue growth rate decreased by 10%	**883,439**	1,226,982
Gross profit rate decreased by 10%	**465,986**	903,866
Terminal revenue growth rate decrease by 10%	**944,260**	1,253,416
Discount rate increased by 10%	**865,284**	1,166,581

As at 31 December 2020, a 110% decrease in estimated revenue growth rate, a 26% decrease in estimated gross profit rate, a 476% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at 31 December 2021, a 36% decrease in estimated revenue growth rate, a 15% decrease in estimated gross profit rate, a 261% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for game segment.

As at 31 December 2020, a 164% decrease in estimated revenue growth rate, a 31% decrease in estimated gross profit rate, a 483% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

As at 31 December 2021, a 85% decrease in estimated revenue growth rate, a 18% decrease in estimated gross profit rate, a 194% increase in estimated discount rate, all changes taken in isolation in the value-in-use calculations, would remove the remaining headroom for information service segment.

17 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

Deferred tax assets

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
— Tax losses	**67,719**	13,713
— Lease liabilities	**26,183**	20,247
— Promotional and advertising expenses	**11,139**	—
— Long-term investments measured at fair value through profit or loss	**—**	2,138
— Bad debt provision	**250**	665
— Intangible assets	**26**	35
Total gross deferred tax assets	**105,317**	36,798
Set-off of deferred tax liabilities pursuant to set-off provisions	**(29,799)**	(19,988)
Net deferred tax assets	**75,518**	16,810
Deferred tax assets:		
— to be recovered within 12 months	**19,194**	7,796
— to be recovered after 12 months	**86,123**	29,002
	105,317	36,798

17 DEFERRED INCOME TAXES

Deferred tax liabilities

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
— Right-of-use assets	**26,123**	19,793
— Intangible assets arising from business combinations	**7,045**	1,349
— Long-term investments measured at fair value through profit or loss	**2,794**	467
Total gross deferred tax liabilities	**35,962**	21,609
Set-off of deferred tax assets pursuant to set-off provisions	**(29,799)**	(19,988)
Net deferred tax liabilities	**6,163**	1,621
Deferred tax liabilities:		
— to be settled within 12 months	**9,116**	6,822
— to be settled after 12 months	**26,846**	14,787
	35,962	21,609

17 DEFERRED INCOME TAXES (Continued)

The movement on the gross deferred income tax assets and liabilities are as follows:

Deferred tax assets

	Tax losses RMB'000	Lease liabilities RMB'000	Promotional and advertising expenses RMB'000	Long-term investments measured at fair value through profit or loss RMB'000	Bad debt provision RMB'000	Intangible assets RMB'000	Total RMB'000
At 1 January 2020	7,338	6,190	—	2,828	464	45	16,865
Recognized in profit or loss	6,392	14,057	—	(690)	205	(10)	19,954
Currency translation differences	(17)	—	—	—	(4)	—	(21)
At 31 December 2020	13,713	20,247	—	2,138	665	35	36,798
Business combination (Note 35)	**2,615**	**—**	**—**	**—**	**—**	**—**	**2,615**
Recognized in profit or loss	**51,522**	**5,936**	**11,139**	**(2,138)**	**(414)**	**(9)**	**66,036**
Currency translation differences	**(131)**	**—**	**—**	**—**	**(1)**	**—**	**(132)**
At 31 December 2021	**67,719**	**26,183**	**11,139**	**—**	**250**	**26**	**105,317**

Deferred tax liabilities

	Right-of-use assets RMB'000	Intangible assets arising from business combinations RMB'000	Long-term investments measured at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2020	5,431	1,536	684	7,651
Recognized in profit or loss	14,362	(187)	(217)	13,958
At 31 December 2020	19,793	1,349	467	21,609
Business combination (Note 35)	**—**	**6,545**	**—**	**6,545**
Recognized in profit or loss	**6,330**	**(849)**	**2,327**	**7,808**
At 31 December 2021	**26,123**	**7,045**	**2,794**	**35,962**

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilize those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As at 31 December 2020 and 2021, the Group did not recognize deferred income tax assets of RMB61 million and RMB313 million, in respect of cumulative tax losses amounting to RMB401 million and RMB1,907 million. Unrecognized tax losses in mainland China will expire from 2022 to 2031 and unrecognized tax losses in Hong Kong and Singapore can be carried forward indefinitely.

18 INTERESTS IN OTHER ENTITIES

(a) Non-controlling interests

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

(i) Yiwan

Summarized statement of financial position

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current assets	**580,722**	912,816
Non-current assets	**229,603**	56,396
Current liabilities	**(124,971)**	(288,348)
Non-current liabilities	**(75,965)**	(4,242)
Net assets	**609,389**	676,622
Accumulated non-controlling interests	**114,963**	175,143

Summarized statement of comprehensive loss

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue	**688,993**	517,066
(Loss)/profit for the year	**(22,190)**	84,596
Profit and total comprehensive income for the year allocated to non-controlling interests	**2,584**	33,560
Summarized statement of cash flows		
Cash flows from operating activities	**12,696**	130,064
Cash flows from investing activities	**(285,374)**	422,754
Cash flows from financing activities	**(250,188)**	178,787
Net (decrease)/increase in cash and cash equivalents	**(522,866)**	731,605

18 INTERESTS IN OTHER ENTITIES (Continued)

(a) Non-controlling interests (Continued)

(ii) X.D. Global (HK) Limited

Summarized statement of financial position

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Current assets	362,573	444,428
Non-current assets	9,470	34,951
Current liabilities	(156,712)	(257,521)
Non-current liabilities	(94,965)	(59,997)
Net assets	120,366	161,861
Accumulated non-controlling interests	42,128	56,651

Summarized statement of comprehensive income

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue	677,782	819,551
Profit for the period	90,786	142,951
Other comprehensive loss	(5,529)	(8,452)
Total comprehensive income	85,257	134,499
Profit allocated to non-controlling interests	31,775	50,033
Total comprehensive income allocated to non-controlling interests	29,840	47,075
Dividends paid to non-controlling interests	45,303	49,223
Summarized statement of cash flows		
Cash flows from operating activities	113,520	289,155
Cash flows from investing activities	(1,935)	(19,346)
Cash flows from financing activities	(129,436)	(140,638)
Exchange loss on cash and cash equivalents	(26,882)	(18,242)
Net (decrease)/increase in cash and cash equivalents	(44,733)	110,929

18 INTERESTS IN OTHER ENTITIES (Continued)

(b) Transactions with non-controlling interests

(i) In September 2020, the Group acquired an additional 18.34% equity interest in Yiwan at a consideration of RMB330 million. Immediately prior to the purchase, the carrying amount of the existing 44.23% non-controlling interest in Yiwan was RMB290 million. The Group recognized a decrease in non-controlling interest of RMB120 million and a decrease in other reserves of RMB210 million. (Note 26)

(ii) In May 2021, the Group acquired an additional 6.86% equity interest in Yiwan at a consideration of RMB172 million. Immediately prior to the purchase, the carrying amount of the existing 25.88% non-controlling interest in Yiwan was RMB168 million. The Group recognized a decrease in non-controlling interest of RMB45 million and a decrease in other reserves of RMB127 million.

(iii) In November 2021, the Group acquired an additional 27.96% equity interest in TapTap Holding Limited at a consideration of RMB4 thousand. Immediately prior to the purchase, the carrying amount of the existing 44.22% non-controlling interest was negative RMB15 million. The Group recognized an increase in non-controlling interest of RMB9 million and a decrease in other reserves of RMB9 million

(c) Investments in associates using the equity method

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
At the beginning of the year	**66,326**	52,800
Additions	**—**	10,025
Share of results of associates	**28,387**	14,915
Dilution gain (Note i)	**843**	—
Dividends distribution	**(3,600)**	(3,600)
Impairment (Note ii)	**(2,023)**	(7,137)
Disposal	**—**	(460)
Currency translation differences	**(87)**	(217)
At the end of the year	**89,846**	66,326

(i) During the year ended 31 December 2021, one associate accounted for using equity method received capital injection from third parties. Consequently, the Group's equity interest in the investee was diluted, but the Group retained significant influence on the investee. The Group recognized dilution gain of RMB0.8 million during the year ended 31 December 2021 (Note 10).

(ii) During the years ended 31 December 2021 and 2020, the Group recognized impairment provisions of RMB2 million and RMB7 million respectively against their carry amount of certain investments, mainly due to management's revision of financial and business outlook of the associates and changes in market environment in the underlying business and was calculated based on their recoverable amounts. The Group determined the recoverable amounts of these investments based on their value-in-use. Discount rate used in the calculation of value in use of these investments for the years ended 31 December 2021 and 2020 was 21% and 20% respectively.

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December 2021 RMB'000	2020 RMB'000
Assets as per consolidated statement of financial position		
Financial assets at fair value through profit or loss:		
— Long-term investments measured at fair value through profit or loss (Note 20)	30,102	23,670
— Short-term investments measured at fair value through profit or loss (Note 23)	689,518	—
	719,620	23,670
Financial assets at amortized costs:		
— Trade receivables (Note 22)	223,550	299,161
— Deposits and other assets	26,935	20,749
— Short-term investments measured at amortized cost (Note 23)	102,920	—
— Restricted Cash (Note 24b)	296	—
— Cash and cash equivalents (Note 24a)	3,164,726	2,319,512
	3,518,427	2,639,422
Liabilities as per consolidated statement of financial position		
Financial liabilities at amortized costs:		
— Trade payables (Note 28)	205,390	164,560
— Advance from customers (Note 29)	37,025	21,215
— Other payables (excluding salaries and benefits payable and other tax payables) (Note 30)	47,041	19,597
— Lease liabilities (Note 27)	138,124	129,993
— Convertible bonds (Note 32)	1,684,063	—
	2,111,643	335,365

20 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Movements in long-term investments measured at fair value through profit or loss during the year ended 31 December 2020 and 2021, are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**23,670**	29,918
Additions	**7,000**	4,500
Change in fair value (Note 8)	**(565)**	(10,685)
Currency translation differences	**(3)**	(63)
At the end of the year	**30,102**	23,670

As of 31 December 2020 and 2021, all long-term investments measured at fair value through profit or loss are equity investments in unlisted companies held by the Group. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

Long-term investments measured at fair value through profit or loss included:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Investments in associates at fair value through profit or loss (Note a)	**22,326**	16,784
Other investments at fair value through profit or loss (Note b)	**7,776**	6,886
	30,102	23,670

20 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(a) During the years ended 31 December 2020 and 2021, the Group made investments in associates in the form of redeemable instruments and designated them at fair value through profit or loss. The Group has significant influence in these companies.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**16,784**	17,457
Additions	**7,000**	4,500
Change in fair value	**(1,458)**	(5,173)
At the end of the year	**22,326**	16,784

(b) The Group also has interests in certain investee companies in form of ordinary shares without significant influence, control or joint control, which are managed and their performance are evaluated on a fair value basis. The Company designated these instruments as long-term investments measured at fair value through profit or loss.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**6,886**	12,461
Change in fair value	**893**	(5,512)
Currency translation differences	**(3)**	(63)
At the end of the year	**7,776**	6,886

As at 31 December 2020 and 2021, the balance of the Group's long-term investments measured at fair value through profit or loss comprised a number of individual investments, none of the investment is material to the Group.

21 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-current		
Prepayments for game licenses (a)	**36,181**	11,837
Rental and other deposits	**16,765**	13,797
Prepayments for equipment	**10,437**	1,079
	63,383	26,713
Current		
Prepayments for sharing of proceeds (a)	**14,261**	57,544
Prepayments to other service providers	**10,242**	10,096
Rental and other deposits	**9,160**	6,217
Prepayments for advertisements and marketing services	**8,852**	32,042
Tax prepayments	**5,772**	3,608
Others	**16,528**	11,320
Less: allowance for impairment	**(69)**	—
	64,746	120,827

(a) The Group licenses online games from game developers and pays game license fees and sharing of proceeds earned from end users to game developers. The prepayments for game license fees are transferred to intangible assets when the Group receives related licensed games. The prepayments for sales based sharing are expensed to cost of revenues if the Group acts as principle, or are offset against the revenues if the Group acts as agent, on incurred basis.

The Group regularly assesses the possibility whether relevant games could be successfully published and estimates the future return from these games to assess impairment indicator of those prepayments. During the year ended 31 December 2020 and 2021, the Group made impairment provision for and write-off certain prepayments to game developers of RMB15 million and RMB25 million, respectively, due to underperformance of related games.

22 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Distribution Channels and game publishers	**153,688**	199,002
Online marketing service customers	**71,106**	104,170
Others	**505**	505
	225,299	303,677
Less: allowance for impairment	**(1,749)**	(4,516)
	223,550	299,161

22 TRADE RECEIVABLES (Continued)

(a) Distribution Channels and game publishers and online marketing service customers usually settle the amounts within 30–120 days. Related parties are granted with a credit period of 90 days. Aging analysis of trade receivables based on the recognition date of the gross trade receivables at the respective reporting dates are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 3 months	**203,554**	290,207
3 months to 6 months	**20,420**	6,507
6 months to 1 year	**219**	2,779
1 to 2 years	**17**	2,074
Over 2 years	**1,089**	2,110
	225,299	303,677

(b) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of each type of the trade receivables to measure the expected credit losses. During the years ended 31 December 2020 and 2021 the expected loss rate for related parties and online market service customers is 0.22%~0.39%; the expected credit loss rates for Distribution Channels and game publishers are determined according to provision matrix as follows:

	As of 31 December	
	2021	2020
Within 3 months	**0.23%**	0.08%
3 months to 6 months	**1.90%**	1.15%
6 months to 1 year	**5.02%**	6.43%
1 to 2 years	**75.97%**	64.80%
Over 2 years	**100.00%**	100.00%

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 and 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the CPI and GDP of the countries in which it operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**4,516**	3,466
(Revised)/Provision	**(331)**	1,624
Write-off	**(2,432)**	(549)
Currency translation differences	**(4)**	(25)
At the end of the year	**1,749**	4,516

The provisions and reversal of provisions for impaired receivables have been included in "Net impairment losses on financial assets" in the consolidated statement of comprehensive loss.

22 TRADE RECEIVABLES (Continued)

(c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as of 31 December 2020 and 2021.

(d) The maximum exposure to credit risk as of 31 December 2020 and 2021 was the carrying value of the trade receivables. The Group did not hold any collateral as security.

(e) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
USD	**108,656**	180,059
RMB	**87,062**	123,618
HKD	**22,534**	—
Others	**7,047**	—
	225,299	303,677

23 SHORT-TERM INVESTMENTS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Term deposits above three months and within one year (Note a)	**102,920**	—
Wealth management products issued by commercial banks (Note b)	**689,518**	—
	792,438	—

(a) Term deposits above three months and within one year are measured at amortized cost. The interest rates of these deposits per annum were 0.7%–3.0% and the terms are six months.

23 SHORT-TERM INVESTMENTS (Continued)

(b) Returns on these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. The fair values are based on discounted cash flow using the expected return based on management judgment (Note 3.3). Changes in fair value of these financial assets had been recognized in "Fair value changes on investments measured at fair value through profit or loss" in the consolidated statement of comprehensive loss.

The carrying amount of the Group's short-term investments is denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**728,500**	—
USD	**63,938**	—
	792,438	—

24 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS

(a) Cash and Cash equivalents

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Cash on hand and cash in bank	**3,108,155**	2,208,682
Term deposit with initial terms within three months (Note i)	**818**	84,423
Cash held by other financial institutions (Note ii)	**55,753**	26,407
	3,164,726	2,319,512

(i) The interest rates of these deposits per annum were 0.01%–3.45%.

(ii) As at 31 December 2020 and 2021, the Group had certain amounts of cash held in accounts managed by other financial institutions, such as Alipay and WeChat Pay in connection with the provision of online and mobile payment services which have been classified as cash and cash equivalents on the consolidated statement of financial position.

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**1,093,822**	1,065,461
USD	**1,605,742**	627,211
HKD	**455,739**	611,919
Others	**9,423**	14,921
	3,164,726	2,319,512

24 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS (Continued)

(b) Restricted Cash

The Group's restricted cash mainly represents secured deposits held in designated bank accounts to secure for corporate credit card charges and amounts frozen for insignificant legal disputes as of 31 December 2021. As at 31 December 2021, restricted cash is denominated in RMB.

25 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares '000	Nominal value of shares USD'000	Equivalent nominal value of shares RMB'000	Share premium RMB'000	Shares held for share award schemes (Note d) RMB'000
Authorized					
Ordinary shares of USD0.0001 each; 25 January 2019 (date of incorporation)	1,000,000	100	—	—	—
As at 31 December 2021 and 2020	1,000,000	100	—	—	—
Issued and fully paid					
As at 1 January 2020	423,959	41	290	5,357,114	(6)
Issuance of ordinary shares upon exercise of OAO (Note a)	4,060	—*	3	36,669	—
Issuance of ordinary shares (Note b)	26,094	3	19	701,761	—
As at 31 December 2020	454,113	44	312	6,095,544	(6)
As at 1 January 2021	**454,113**	**44**	**312**	**6,095,544**	**(6)**
Issuance of ordinary shares (Note c)	**26,318**	**3**	**17**	**940,257**	**—**
As at 31 December 2021	**480,431**	**47**	**329**	**7,035,801**	**(6)**

* The amount is less than USD1,000.

(a) On 3 January 2020, following the full exercise of over-allotment option available upon its IPO, the Company issued 4,060,000 new ordinary shares at HKD11.10 per share and raised gross proceeds of approximately HKD45 million (equivalent to RMB40 million). The net proceeds was approximately HKD42 million (equivalent to RMB37 million) after deducting listing expenses directly relating to the share issuance.

(b) On 3 July 2020, a total of 26,094,200 new shares were subscribed at HKD29.90 per share under a general mandate granted during IPO. The Company raised gross proceeds of approximately HKD780 million (equivalent to RMB711 million) and received net proceeds of approximately HKD767 million (equivalent to RMB702 million) from the subscription.

(c) On 13 April 2021, a total of 26,318,000 new shares were subscribed at HKD42.38 per share under a general mandate granted. The Company raised gross proceeds of approximately HKD1,115 million (equivalent to RMB942 million) and received net proceeds of approximately HKD1,113 million (equivalent to RMB940 million) from the subscription.

(d) On 17 June 2019, the Company allotted and issued an aggregate of 8,437,540 shares to Heart Assets Limited, which hold shares on trust for and on behalf of the Company. As at 31 December 2020 and 2021, the shares are represented as treasury shares of the Group and will be used for future shared based compensation to employee.

26 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
As at 1 January 2020	(4,207,732)	55,291	15,113	—	(4,137,328)
Transaction with non-controlling interests (Note 18(b))	(209,967)	—	—	—	(209,967)
Appropriation to statutory reserves (Note a)	—	16,057	—	—	16,057
Currency translation differences	—	—	(113,041)	—	(113,041)
As at 31 December 2020	(4,417,699)	71,348	(97,928)	—	(4,444,279)
As at 1 January 2021	**(4,417,699)**	**71,348**	**(97,928)**	**—**	**(4,444,279)**
Issuance of convertible bond (Note 32)	**97,390**	**—**	**—**	**—**	**97,390**
Share-based compensation expenses (Note 34)	**—**	**—**	**—**	**27,619**	**27,619**
Transaction with non-controlling interests (Note 18(b))	**(136,403)**	**—**	**—**	**—**	**(136,403)**
Currency translation differences	**—**	**—**	**(57,286)**	**—**	**(57,286)**
As at 31 December 2021	**(4,456,712)**	**71,348**	**(155,214)**	**27,619**	**(4,512,959)**

(a) In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective Statutory Surplus Reserve Funds and the Discretionary Reserve Funds before distributions are made to the owners. The percentage of appropriation to Statutory Surplus Reserve Fund is 10%. The amount to be transferred to the Discretionary Reserve Fund is determined by the equity owners of these companies. When the balance of the Statutory Surplus Reserve Fund reaches 50% of the registered capital, such transfer needs not to be made. Both the Statutory Surplus Reserve Fund and Discretionary Reserves Fund can be capitalized as capital of an enterprise, provided that the remaining Statutory Surplus Reserve Fund shall not be less than 25% of the registered paid in capital.

27 LEASE LIABILITIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Minimum lease payments due		
— Within 1 year	**55,805**	50,171
— Between 1 and 2 years	**36,922**	38,975
— Between 2 and 5 years	**55,323**	45,950
— Over 5 years	**3,354**	8,581
	151,404	143,677
Less: future finance charges	**(13,280)**	(13,684)
Present value of lease liabilities	**138,124**	129,993

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Minimum lease payments due		
— Within 1 year	**54,275**	48,073
— Between 1 and 2 years	**32,989**	36,272
— Between 2 and 5 years	**48,275**	39,037
— Over 5 years	**2,585**	6,611
	138,124	129,993

28 TRADE PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade payables	**205,390**	164,560

Trade payables are primarily related to the purchase of services for server custody, advertisement and sharing of proceeds due to game developers. The credit terms of trade payables granted to the Group are usually 0 to 90 days.

Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 3 months	**204,868**	162,478
Over 3 months	**522**	2,082
	205,390	164,560

The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**137,304**	89,524
USD	**62,147**	75,036
SGD	**5,939**	—
	205,390	164,560

As of 31 December 2020 and 2021, the fair value of trade payables approximated to their carrying amount.

29 ADVANCE FROM CUSTOMERS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Advance from customers	**37,025**	21,215

Advance from customers mainly represents advance from game developers, game publishers and their advertising agencies, which are usually received before displaying and will be refunded if not used.

30 OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and benefits payables	**251,276**	198,155
Other tax payables	**43,261**	22,216
Payables for investments (Note 35)	**17,343**	—
Professional service fee payables	**16,092**	16,693
Others	**13,606**	2,904
	341,578	239,968

As at 31 December 2020 and 2021, other payables and accruals were denominated in RMB and the fair values of these balances approximated to their carrying amounts.

31 CONTRACT LIABILITIES

Contract liabilities primarily consists of the unamortised revenue from sales of virtual items for mobile games, where there is still obligation to be provided by the Group to game players.

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contract liabilities	**206,642**	128,546

The following table shows the amount of revenue recognized in the consolidated statement of comprehensive loss for the respective years relating to contract liabilities brought forward:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year	**128,546**	99,321

32 CONVERTIBLE BONDS

Issue of convertible bonds

On 12 April 2021, the Company issued convertible bonds (the "**2021 Convertible Bonds**") at a par value of USD200,000 each with the aggregate principal amounts of USD280 million. The 2021 Convertible Bonds bear an interest of 1.25% per annum payable semi-annually and will mature on 12 April 2026.

Upon the occurrence of certain events specified in the agreements, the bondholders will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the specified date at their principal amount, together with accrued and unpaid interest thereon.

Bondholders may convert their bonds into ordinary shares at any time on or after 23 May 2021 up to the close of business on the seventh day prior to 12 April 2026. Conversion shares will be issued upon full conversion of the 2021 Convertible Bonds based on the conversion price of HKD63.45 with a fixed exchange rate of 7.7746 HKD/USD.

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at its principal amount, together with accrued and unpaid interest thereon, on the 12 April 2026 or in certain circumstances specified in the agreements.

The 2021 Convertible Bonds is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the 2021 Convertible Bonds. Such embedded derivatives are deemed to be clearly and closely related to the host contract and therefore do not need to be separately accounted for.

As at the date of issue, the fair value of the liability component of the 2021 Convertible Bonds was disclosed as below:

	12 April 2021 RMB'000
Principal amount	1,836,184
Transaction cost	(28,659)
Liability component	(1,710,135)
Equity component	97,390

32 CONVERTIBLE BONDS (Continued)

Subsequent to the initial recognition, the liability component of the 2021 Convertible Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the 2021 Convertible Bonds was 2.4% per annum as at 31 December 2021. The movement of the liability component and the equity component of the 2021 Convertible Bonds for the year ended 31 December 2021 is set out below:

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
As at 1 January 2021	—	—	—
Issuance	1,710,135	97,390	1,807,525
Interest charged (Note 11)	32,962	—	32,962
Interest paid	(11,157)	—	(11,157)
Currency translation differences	(47,877)	—	(47,877)
As at 31 December 2021	1,684,063	97,390	1,781,453

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the 2021 Convertible Bonds mature.

If the 2021 Convertible Bonds were fully converted, 34,308,715 ordinary shares will be issued as of 31 December 2021.

33 DIVIDENDS DISTRIBUTION OF SUBSIDIARIES

No dividends have been paid or declared by the Company during the years ended 31 December 2020 and 2021.

In April 2021, pursuant to the resolution of the shareholders' meetings of X.D. Global (HK) Limited, a subsidiary of the Group, a dividend of USD20 million was approved and paid, USD7 million (equivalent to RMB45 million) of which was paid to non-controlling shareholders.

In May 2021, pursuant to the resolution of the shareholders' meetings of Yiwan, a subsidiary of the Group, a dividend of RMB50 million was approved and paid, RMB13 million of which was paid to non-controlling shareholders.

In July 2021, pursuant to the resolution of the shareholders' meetings of Longcheng, a subsidiary of the Group, a dividend of RMB165 million was approved and paid, RMB58 million of which was paid to non-controlling shareholders.

34 SHARE-BASED COMPENSATION EXPENSES

On 25 June 2021, shareholders of the Company approved the Share Option Scheme, an equity-settled share-based compensation plan with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The Share Option Scheme is valid and effective for 10 years from the date of approval by the shareholders. The total number of ordinary shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over shares or other securities by the Company or any of its subsidiaries shall not in aggregate exceed 48,043,070 shares without shareholders' approval subject to a limit of 10% to the total number of issued shares at the date of approval of the refreshed limit. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other options granted and yet to be exercised under any other option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

As of 31 December 2021, the Group has authorized and reserved a total of 48,043,070 ordinary shares under the Share Option Scheme for awards of options of the Company's ordinary shares.

There is no performance target or minimum period for which an option must be held before it can be exercised. The option must be exercised no more than 10 years from the grant date.

Movements in the number of share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option (HKD)
Outstanding as of 1 January 2021	—	—
Granted during the year	1,371,055	50.88
Outstanding as of 31 December 2021	**1,371,055**	**50.88**
Vested and exercisable as of 31 December 2021	**1,371,055**	**50.88**

The weighted average remaining contractual life of outstanding share options are 10 years as of 31 December 2021.

The Group has used Black-Scholes model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended 31 December 2021
Risk-free interest rates	1.03%–1.30%
Expected term — years	2.2–2.8
Expected volatility	47%
Fair value of share options (HKD)	22.23–32.00
Exercise price (HKD)	46.90–62.60

The weighted average exercise price of granted options was HKD50.88 per share for the year ended 31 December 2021.

34 SHARE-BASED COMPENSATION EXPENSES (Continued)

The share-based compensation expenses have been charged to the consolidated statements of comprehensive loss for the year ended 31 December 2021 as follows:

	Year ended 31 December 2021 RMB'000
Cost of revenues	560
Selling and marketing expenses	298
Research and development expenses	21,433
General and administrative expenses	5,328
	27,619

35 BUSINESS COMBINATION

In May 2021, the Group acquired 100% of the equity interests in Lean Cloud (Hong Kong) Limited ("**Lean Cloud**"), an unlisted entity which provides data storage and instant data transmission services in mainland China. The goodwill of approximately RMB65.43 million recognized represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired. The goodwill recorded, not deductible for tax purposes, is primarily attributable to the Group's opportunity to strengthen Yiwan's online platform, Taptap, and to achieve synergy from combining Lean Cloud's data services with Taptap's services and providing integrated services to game developers.

The following table summarizes the consideration paid for Lean Cloud, the fair value of assets acquired, liabilities assumed at the acquisition date:

	As at 31 May 2021 RMB'000
Total purchase consideration	87,602
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	2,564
Trade receivables	50
Prepayments and other assets	2,028
Property, plant and equipment	191
Intangible assets-technology	26,181
Deferred tax assets	2,615
Advance from customers	(2,260)
Other payables and accruals	(2,656)
Deferred tax liabilities	(6,545)
Add: Goodwill	65,434
	87,602

The acquisition-related costs were not significant and had been charged to general and administrative expenses in the consolidated statements of comprehensive loss for the year ended 31 December 2021.

35 BUSINESS COMBINATION (Continued)

The revenue included in the consolidated statements of comprehensive loss since 31 May 2021 contributed by Lean Cloud was RMB6.1 million and Lean cloud also contributed a loss of RMB5.7 million over the same period. Had Lean Cloud been consolidated from January 1, 2021, the consolidated revenue and loss of the Group would increase by approximately RMB10.1 million and RMB6.7 million respectively for the year ended 31 December 2021.

As at 31 December 2021, RMB17.3 million of the purchase consideration remains unpaid (Note 30).

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

		Year ended 31 December	
		2021	2020
	Notes	**RMB'000**	RMB'000
(Loss)/profit before income tax		**(955,888)**	106,986
Adjustments for			
Depreciation and amortization	6	**187,317**	141,623
Net impairment losses on financial assets	6	**(262)**	1,624
Impairment of non-financial assets	6	**29,929**	37,970
Impairment of investments accounted for using equity method	18	**2,023**	—
Share of results of investments accounted for using equity method	18	**(28,387)**	(14,915)
Share-based compensation expenses	34	**27,619**	—
Fair value changes on investments measured at fair value through profit or loss	8	**(9,347)**	1,426
Interest income from investments measured at amortized cost	9	**(16,616)**	—
Gains on disposal of non-current assets		**(20)**	—
Net exchange differences	10	**(21,447)**	(2,785)
Interest expenses on convertible bonds	11	**32,962**	—
Interest expenses on lease liabilities	11	**6,390**	3,466
Others		**(843)**	(941)
		209,318	167,468
Changes in working capital			
— Trade receivables		**72,662**	73,553
— Prepayments, deposits and other assets		**10,818**	(28,351)
— Trade payables		**40,830**	(36,285)
— Advance from customers		**13,550**	5,459
— Contract liabilities		**78,096**	29,225
— Other payables and accruals		**82,150**	91,814
— Restricted cash		**(296)**	—
Cash (used in)/generated from operations		**(448,760)**	409,869

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Net debt reconciliation

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cash and cash equivalents (Note 24)	**3,164,726**	2,319,512
Lease liabilities (Note 27)	**(138,124)**	(129,993)
Convertible bonds (Note 32)	**(1,684,063)**	—
Net debt	**1,342,539**	2,189,519

	Cash and cash equivalents	**Lease liabilities**	**Convertible bonds**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	1,336,869	(39,518)	—	1,297,351
Cash flows	1,065,782	32,029	—	1,097,811
Increase of right-of-use assets	—	(119,372)	—	(119,372)
Interest accrued	—	(3,466)	—	(3,466)
Foreign exchange adjustments	(83,139)	—	—	(83,139)
Others (Note 15)	—	334	—	334
At 31 December 2020	2,319,512	(129,993)	—	2,189,519
At 1 January 2021	**2,319,512**	**(129,993)**	**—**	**2,189,519**
Cash flows	**926,481**	**61,345**	**(1,807,525)**	**(819,699)**
Increase of right-of-use assets	**—**	**(65,245)**	**—**	**(65,245)**
Equity component for the conversion option	**—**	**—**	**97,390**	**—**
Interest paid	**—**	**—**	**11,157**	**—**
Interest accrued	**—**	**(6,390)**	**(32,962)**	**(39,352)**
Foreign exchange adjustments	**(81,267)**	**52**	**47,877**	**(33,338)**
Early termination of lease	**—**	**2,107**	**—**	**2,107**
At 31 December 2021	**3,164,726**	**(138,124)**	**(1,684,063)**	**1,342,539**

37 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of purchase of game licenses which are in development as at 31 December 2020 and 2021. The Group has commitments to make the following future instalments under non-cancellable game purchase agreements are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Game licenses	**38,193**	27,496

(b) Operating lease commitments

The Group has non-cancellable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at 31 December 2020 and 2021 is similar to the portfolio of short-term leases to which the short-term lease expense is disclosed in Note 15.

38 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties. The Group's pricing policies on the transactions with related parties are based on mutually agreed terms.

38 RELATED PARTY TRANSACTIONS (Continued)

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the years ended 31 December 2020 and 2021.

Name of related parties	Relationship
Gamecores (Beijing) Culture Communication Co., Ltd.	Associate
Shanghai Bianyue Culture Communication Co., Ltd.	Associate
Shanghai Chatie Network Science and Technology Co., Ltd.	Associate
Shanghai Fantablade Network Science and Technology Co., Ltd.	Associate
Shanghai Jixin Network Science and Technology Co., Ltd.	Associate
Shanghai Qingyue Software Science and Technology Co., Ltd.	Associate
Xiamen So Funny Information Technology Co., Ltd.	Associate
Shanghai Framing Network Technology Co., Ltd.	Associate
Mr. Huang Yimeng	Shareholder and director
Mr. Dai Yunjie	Shareholder and director
Mr. Liu Wei	Director since 17 December 2020
Jiexin Holdings Limited	Shareholder
Happy Today Holding Limited	Shareholder
Shanghai Maichuang Network Technology Limited	Associate of Mr. Dai Yunjie's spouse

(b) Significant transactions with related parties

(i) Purchase of service

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Xiamen So Funny Information Technology Co., Ltd.	**256,448**	236,896
Shanghai Bianyue Culture Communication Co., Ltd.	**9,771**	9,151
Shanghai Maichuang Network Technology Limited	**9,279**	10,993
Shanghai Fantablade Network Science and Technology Co., Ltd.	**5,032**	8,555
Shanghai Chatie Network Science and Technology Co., Ltd.	**4,290**	—
Gamecores (Beijing) Culture Communication Co. Ltd.	**2,081**	327
Shanghai Jixin Network Science and Technology Co., Ltd.	**1,515**	2,578
Others	**1,157**	1,917
	289,573	270,417

38 RELATED PARTY TRANSACTIONS (Continued)

(c) Year end balances with related parties

(i) Prepayments to related parties

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Shanghai LinkedTune Culture Communication Co., Ltd.	**572**	761
Shanghai Qingyue Software Science and Technology Co., Ltd.	**—**	4,854
Shanghai Chatie Network Science and Technology Co., Ltd.	**—**	2,233
	572	7,848

(ii) Other receivables from related parties

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Jiexin Holdings Limited	**238**	243
Happy Today Holding Limited	**8**	8
	246	251

Receivables from related parties are unsecured, interest-free and repayable on demand.

(iii) Trade payables to related parties

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Xiamen So Funny Information Technology Co., Ltd.	**44,245**	23,336
Shanghai Chatie Network Science and Technology Co., Ltd.	**18,481**	—
Shanghai Fantablade Network Science and Technology Co., Ltd.	**1,107**	1,569
Others	**406**	581
	64,239	25,486

38 RELATED PARTY TRANSACTIONS (Continued)

(c) Year end balances with related parties (Continued)

(iv) Other payables and accruals to related parties

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Shanghai Framing Network Technology Co., Ltd.	**—**	1,500

The payables due to related parties are unsecured, interest-free and are repayable on demand.

(d) Key management compensation

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses	**14,066**	9,147
Post-employment benefits	**435**	354
Long-term benefits	**—**	—
Termination benefits	**—**	—
Share-based compensation expenses	**2,785**	—
	17,286	9,501

39 CONTINGENCIES

The Group did not have any material contingent liabilities as of 31 December 2020 and 2021.

40 SUBSEQUENT EVENTS

There is no material subsequent event occurred during the period from December 31, 2021 to the approval date of these consolidated financial statements by the Board of Directors on 30 March 2022.

41 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	4,433,711	4,509,195
	4,433,711	4,509,195
Current assets		
Amount due from related parties	3,909,407	1,092,156
Cash and cash equivalents	97,126	201,330
	4,006,533	1,293,486
Total assets	8,440,244	5,802,681
EQUITY		
Share capital	329	312
Share premium	7,035,801	6,095,544
Share held for share award schemes	(6)	(6)
Other reserves	(373,489)	(338,500)
Retained Earnings	78,095	31,413
Total equity	6,740,730	5,788,763
LIABILITIES		
Non-current liabilities		
Convertible bonds	1,662,058	—
Current liabilities		
Other payables and accruals	15,451	13,918
Convertible bonds	22,005	—
Total liabilities	1,699,514	13,918
Total equity and liabilities	8,440,244	5,802,681

The balance sheet of the Company was approved by the Board of Directors on 30 March 2022 and was signed on its behalf.

Dai Yunjie
Director

Fan Shuyang
Director

41 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(b) Reserve movement of the Company

	Capital reserve RMB'000	Currency translation difference RMB'000	Share-based compensation expenses RMB'000	Total RMB'000
As at 1 January 2020	—	69,552	—	69,552
Currency translation differences	—	(408,052)	—	(408,052)
As at 31 December 2020	—	(338,500)	—	(338,500)
As at 1 January 2021	**—**	**(338,500)**	**—**	**(338,500)**
Currency translation differences	**—**	**(159,998)**	**—**	**(159,998)**
Share-based compensation expenses (Note 34)	**—**	**—**	**27,619**	**27,619**
Issuance of convertible bond (Note 32)	**97,390**	**—**	**—**	**97,390**
As at 31 December 2021	**97,390**	**(498,498)**	**27,619**	**(373,489)**

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FINANCIAL SUMMARY

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended December 31				
	2021	2020	2019	2018	2017
Revenues	**2,703,173**	2,847,553	2,838,097	1,887,108	1,344,399
Cost of revenues	**(1,476,930)**	(1,315,525)	(1,066,320)	(776,309)	(741,651)
Gross profit	**1,226,243**	1,532,028	1,771,777	1,110,799	602,748
Selling and marketing expenses	**(780,184)**	(633,394)	(745,101)	(447,989)	(244,358)
Research and development expenses	**(1,242,174)**	(657,506)	(317,596)	(197,780)	(117,443)
General and administrative expenses	**(235,105)**	(179,916)	(202,692)	(107,315)	(83,840)
Net impairment losses on financial assets	**262**	(1,624)	(1,889)	(299)	(960)
Fair value changes on investments measured at fair value through profit or loss	**9,347**	(1,426)	8,186	(3,351)	(21,069)
Other income	**44,993**	26,166	12,426	8,141	958
Other gains/(losses), net	**21,097**	3,361	4,179	24,232	(2,091)
Operating Profit	**(955,521)**	87,689	529,290	386,438	133,945
Finance income	**13,533**	15,505	8,319	4,993	3,024
Finance costs	**(40,264)**	(3,986)	(2,951)	(2,320)	(2,085)
Finance income/(costs), net	**(26,731)**	11,519	5,368	2,673	939
Share of losses of investments accounted for using equity method	**28,387**	14,915	10,767	285	7,587
Impairment of investments accounted for using equity method	**(2,023)**	(7,137)	—	—	—
Profit before income tax	**(955,888)**	106,986	545,425	389,396	142,471
Income tax expenses	**38,600**	(51,198)	(31,996)	(36,675)	(21,934)
Profit for the year	**(917,288)**	55,788	513,429	352,721	120,537
Profit for the year attributable to:					
Equity holders of the Company	**(863,811)**	9,145	346,563	285,028	116,630
Non-controlling interests	**(53,477)**	46,643	166,866	67,693	3,907
Profit for the year	**(917,288)**	55,788	513,429	352,721	120,537

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Assets, Liabilities and Equity					
TOTAL ASSETS	**5,044,132**	3,344,742	2,866,060	1,724,700	1,310,581
TOTAL LIABILITIES	**2,661,725**	764,616	579,530	382,140	352,826
TOTAL EQUITY	**2,382,407**	2,580,126	2,286,530	1,342,560	957,755

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DEFINITIONS AND GLOSSARY

DEFINITIONS AND GLOSSARY

"ARPG"	action role-playing game, which incorporates elements of action or action-adventure games and normally has real-time combat system rather than turn-based or menu-based combat system;
"Articles"/"Articles of Association"	the amended and restated articles of association of our Company, conditionally adopted on November 19, 2019 with effect from the Listing Date, and as amended from time to time;
"associate(s)"	has the meaning ascribed thereto under the Listing Rules;
"Auditor"	PricewaterhouseCoopers, the independent auditor of the Company;
"battle arena game"	a subdivision of ACT and where gamers are usually break into different teams consisting of equal number of team members and team members within one team have to cooperate with each other to compete with other teams;
"beta-testing"	a form of external user acceptance testing;
"Board"	the board of Directors of the Company;
"Board Committees"	the four committees established and delegated to by the Board, including the audit committee, the remuneration and appraisal committee, the strategy and development committee and the nomination committee;
"CDN"	content delivery network;
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
"Companies Law"	the Companies Law (2018 Revision), Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time;
"Company" or "our Company"	XD Inc. (心動有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 25, 2019, the shares of which are listed on the Stock Exchange under stock code 02400;
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules;
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules;
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, WFOE, X.D. Network and the Registered Shareholders, details of which are described in the section headed "Contractual Arrangements";
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Huang and Happy Today Holding Limited;
"Director(s)"	the director(s) of the Company;

"Foreign Investment Law"	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) adopted by the National People's Congress on March 15, 2019 with effect from January 1, 2020;
"GAPP" and "NAPP"	General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署), currently known as National Administration of Press and Publication (國家新聞出版總署) since March 2018;
"Group", "our Group", "we" or "us"	the Company, its subsidiaries and its PRC Consolidated Affiliated Entities from time to time; "Hong Kong" the Hong Kong Special Administrative Region of the People's Republic of China;
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"IFRS"	International Financial Reporting Standards, which include standards and interpretations as issued from time to time by the International Accounting Standards Board;
"Independent Third Party(ies)"	an individual or a company who, to the best of our Directors' knowledge, information and belief, having made reasonable enquiries, is not a connected person (within the meaning of the Listing Rules);
"Listing Date"	December 12, 2019, being the date on which the shares of the Company became listed and commenced trading on the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
"Longcheng"	Shanghai Longcheng Network Technology Co., Ltd. (上海龍成網絡科技有限公司), a company established in the PRC on September 14, 2015, and a non-wholly owned subsidiary of our Company, or together with one or more of its subsidiaries, as the context may require;
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange;
"MAU(s)"	monthly active user(s), which refers to the number of users who log into a particular game or all of our games, as applicable, in the relevant calendar month for games, and refers to the number of users who access the TapTap mobile app in the relevant calendar month for TapTap, both of which include multiple accounts held by one single user. Average MAUs for a particular period are calculated by dividing the aggregate of the MAUs during that period by the number of months of that period;
"MMORPG"	massively multiplayer online-role-playing games;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
"NEEQ"	National Equities Exchange and Quotations (全國中小企業股份轉讓系統);

"Negative List"	Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單) (2019年版));
"pay-to-play"	a business model used in the online game industry, under which users are required to pay in order to play games;
"PRC" or "China"	the People's Republic of China, but for the purposes of this report only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
"PRC Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, namely X.D. Network and its respective subsidiaries;
"premium games"	games for which gamers need to pay a fixed price before downloading such games, after which the users will have unlimited access to play such games;
"Prospectus"	the prospectus of the Company dated 29 November 2019;
"Ragnarok M"	Ragnarok M: Eternal Love (仙境傳說: 守護永恆的愛);
"Registered Shareholders"	Xindong Holding Co., Ltd. (心動控股有限公司), Shanghai Jiexin Investment Management Partnership (Limited Partnership), Fuzhou Tianmeng Digital Company Limited (福州天盟數碼有限公司), Shanghai Muxinyinxi Investment Management Partnership (Limited Partnership), Dongfang Xinghui (Shanghai) Investment Center (Limited Partnership) (東方星輝(上海)投資中心(有限合夥)), Shanghai Yousu Investment Management Co., Ltd. (上海游素投資管理有限公司), Tibet Taifu Culture Media Co., Ltd. (西藏泰富文化傳媒有限公司), Xiamen Qunce Chuangying Equity Investment Partnership (Limited Partnership), Xiamen Jixiang Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), Tianjin Jinwutong Investment Management Partnership (Limited Partnership) and the Relevant Individual Shareholders (including Mr. Huang Yimeng, Mr. Dai Yunjie, Mr. Zhao Yuyao, Mr. Hong Shen, Mr. Shen Sheng, Mr. Wang Chenguang, Mr. Pan Zuqiang, Ms. Zhang Aifen, Ms. Chen Ying, Mr. Jia Shaochi, Mr. Huang Yecheng, Ms. Pan Chenping and Mr. Huang Xiwei);
"Relevant Entities"	certain entities in which X.D. Network also directly or indirectly holds investment in the PRC in addition to the restricted and/or prohibited business of our Company;
"Reorganization"	the offshore and onshore reorganization as set out in section headed "History, Reorganization and Corporate Structure — Corporate Reorganization" of the Prospectus;
"RMB"	Renminbi, the lawful currency of the PRC;
"RSU(s)"	restricted share unit(s);
"RSU Holding Entity"	Heart Assets Limited, a company incorporated in the British Virgin Islands holding our Shares pursuant to the RSU Scheme on trust or on behalf of the grantees of our Company;
"RSU Scheme"	the restricted share unit Scheme of our Company adopted on June 3, 2019;
"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 Maichuang"	Shanghai Maichuang Network Technology Limited (上海脈創網絡科技有限公司), which is currently held by Mr. Dai Yunjie's spouse and Independent Third Parties as to 32.00% and 68.00%, respectively, and is therefore an associate of Mr. Dai Yunjie and a connected person of our Company under Rule 14A.07(4) of the Listing Rules;
"Share(s)"	ordinary shares in the share capital of our Company with a par value of US$0.0001;
"Shareholder(s)"	holder(s) of the Share(s);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance;
"Tencent"	Tencent Holdings Limited (SEHK Stock Code: 700), or Tencent Holdings Limited and/or its subsidiaries, as the case may be;
"the reporting period"	period from January 1, 2021 to December 31, 2021;
"USD"	United States dollars, the lawful currency of the United States;
"VAT"	the PRC value-added tax;
"virtual items"	in-game non-physical items available for purchase, including consumables, avatars, skills, privileges, or other in-game features or functionality
"web games"	games that are played in a web browser on PC without downloading any client or app;
"WFOE"	XD Interactive Entertainment Co., Ltd. (心動互動娛樂有限公司), a wholly foreign-owned enterprise established in the PRC on June 6, 2019 held by XD (HK) Limited, an indirect wholly-owned company of our Company;
"X.D. Network"	X.D. Network Inc. (心動網絡股份有限公司), a company established in the PRC on July 29, 2011 and our PRC Consolidated Affiliated Entity;
"Yiwan"	Yiwan (Shanghai) Network Science and Technology Co., Ltd. (易玩(上海)網絡科技有限公司), a company established in the PRC on March 28, 2016, and our PRC Consolidated Affiliated Entity;
"%"	per cent.