



2022
Annual Report

青瓷游戏有限公司 Qingci Games Inc.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 6633



Contents

CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	4
CHIEF EXECUTIVE OFFICER'S STATEMENT	5
MANAGEMENT DISCUSSION AND ANALYSIS	7
REPORT OF THE DIRECTORS	21
BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT	46
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT	50
CORPORATE GOVERNANCE REPORT	98
INDEPENDENT AUDITOR'S REPORT	125
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	131
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	133
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	135
CONSOLIDATED STATEMENT OF CASH FLOWS	137
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	138
FINANCIAL SUMMARY	236
DEFINITIONS	237



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Xu (*Chairman*)
Mr. Huang Zhiqiang
Mr. Liu Siming
Mr. Zeng Xiangshuo

Independent Non-executive Directors

Mr. Zhang Longgen
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

AUDIT COMMITTEE

Mr. Zhang Longgen (*Chairman*)
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

REMUNERATION COMMITTEE

Professor Lam Sing Kwong Simon (*Chairman*)
Mr. Zhang Longgen
Mr. Yang Xu

NOMINATION COMMITTEE

Mr. Yang Xu (*Chairman*)
Professor Lam Sing Kwong Simon
Ms. Fang Weijin

JOINT COMPANY SECRETARIES

Mr. Zhu Chengyin
Ms. So Shuk Yi Betty

AUTHORIZED REPRESENTATIVES

Mr. Liu Siming
Ms. So Shuk Yi Betty

REGISTERED OFFICE IN CAYMAN ISLANDS

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

5th Floor, 4 Wang Hai Road
Xiamen Software Park II
Xiamen, Fujian Province
361008, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
22/F, Prince's Building
Central, Hong Kong



CORPORATE INFORMATION

LEGAL ADVISORS

As to Hong Kong law

Cleary Gottlieb Steen & Hamilton (Hong Kong)

37th Floor, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

COMPLIANCE ADVISOR

Red Solar Capital Limited

Unit 402B, 4/F
China Insurance Group Building
No.141 Des Voeux Road Central
Central, Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited

P.O. Box 1093
Boundary Hall, Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

PRINCIPAL BANKS

Bank of China Limited

Xiamen Cross Strait Financial Center Sub Branch
No. 495, Gaolin Middle Road
Huli District, Xiamen
Fujian, China

China Merchants Bank Co., Ltd.

Xiamen Wuyuanwan Sub Branch
1/F, Sanfu Financial Center
No.990 Anling Road
Huli District, Xiamen
Fujian, China

China Merchants Bank Co., Ltd.

Hong Kong Branch
31/F, Three Exchange Square
8 Connaught Place, Hong Kong

China Merchants Bank Co., Ltd. (Off-shore Banking Department) Shenzhen China

18/F, China Merchants Bank Building
No.18, Lingshiguan Road
Siming District, Xiamen
Fujian, China

COMPANY WEBSITE

www.qcplay.com

LISTING DATE

December 16, 2021

STOCK CODE

6633



Financial Highlights

	For the year ended December 31,		
	2022 (RMB'000)	2021 (RMB'000)	Change (%)
Revenue	630,367	1,105,816	(43)
Gross profit	422,087	812,599	(48)
Net profit(loss)	45,656	(368,638)	(112)
Profit/(loss) attributable to equity holders of the Company	50,283	(367,231)	(114)
Non-IFRS measure:			
Adjusted net profit ⁽¹⁾	46,175	422,147	(89)
Adjusted profit attributable to equity holders of the Company	50,698	423,554	(88)

Note:

- (1) We define adjusted net profit as net (loss)/profit for the period adjusted by adding back changes in fair value of convertible redeemable preference shares, loss from financial instruments issued to investors, listing expenses and share-based compensation. We eliminate the impacts of these items that our management do not consider to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses.

KEY OPERATING INFORMATION

	For the year ended December 31,		
	2022	2021	Change (%)
Average MAUs (in thousands) ⁽¹⁾	1,596	2,542	(37)
Average MPUs (in thousands) ⁽²⁾	214	440	(51)
ARPPU (RMB)	262	224	17
Cumulative registered players (in thousands)	79,013	71,960	10

Notes:

- (1) Our Average MAUs are calculated by dividing (i) the total MAUs of a game; or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game's data before its official launch.
- (2) Our Average MPUs are calculated by dividing (i) the MPUs of a game, or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game's data before its official launch.



Chief Executive Officer's Statement

Dear Shareholders, Qingci staff, and all our friends who have been with us all along,

Hope this letter finds you well!

Looking back to the year 2022 for Qingci Games, "We go far with our original intention as firm as a rock" demonstrated its best footnote. In the past year, upholding the original intention of bringing unique gameplay experience to our players, we continuously refined our self-developed pipeline games and introduced a variety of in-licensed games of different styles; at the same time, we also took solid steps towards our globalization goal. In 2022, our total revenue reached RMB630 million, of which adjusted profit of RMB126 million was achieved in the second half of the year, representing a turnaround from a loss in the first half, with the adjusted profit attributable to equity holders of the Company amounting to approximately RMB50.7 million for the whole year of 2022. This would not be made possible without the efforts of each and every one of Qingci staff and the support of each and every player.

2022 was the year during which Qingci rode the waves forward our journey to our globalization goal. We have expanded our R&D and operation center in Chengdu and our office in Japan, and we are also building up our regional distribution teams for Hong Kong, Macau, Taiwan and Southeast Asia, as well as for Europe and America. Our flagship self-developed game, *The Marvelous Snail* (最強蝸牛), is gradually being tasted by players around the world. This game was launched in June 2020, and as of December 31, 2022, the game recorded gross billings of approximately RMB2.75 billion overseas and domestically, with over 23.5 million cumulative registered players, an average MAU of over 861 thousand, an average MPU of over 146 thousand, and an average player retention rate of over 25.83%, generating aggregate onshore and offshore revenue of RMB575 million in 2022, maintaining a strong vitality. *The Marvelous Snail* (最強蝸牛) was published in Japan in June 2022. In the first week of its launch, the game ranked first on both the iOS free games ranking and the Google Play free games ranking in Japan, and ranked among top ten on the iOS bestseller games ranking in Japan, with gross billings of approximately RMB136 million being achieved in Japan as of 2022. *The Marvelous Snail* (最強蝸牛) was also launched in Thailand in January 2023 and topped the iOS free games ranking in Thailand, obtaining the highest ranking of No. 5 on the bestseller games ranking, which is expected to be launched in North America this year as well.

In addition, we have licensed a number of prime games. We will cooperate with CMGE to jointly publish *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情), and will launch *Cardcaptor Sakura: Memory Key* (魔卡少女櫻：回憶鑰匙). These games will further enrich our pipeline game genres, expand our player base, and deepen our understanding of players' hobbies and needs. We also continue to refine our pipeline self-developed games, among which *Servitor Project* (使魔計劃) was launched on January 4, 2023 and pocketed gross billings of RMB25.50 million in two months since its launch, reaping recognition among numerous players. *Time Voyager* (時光旅行社) has undergone rounds of upgrade and improvement and is prepared for release during the year. We believe that this infinite-stream strategy game will bring a refreshing experience to players.



CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Board of Directors and the management of the Company, I would like to sincerely thank all the Qingci staff for their perseverant hard work, their spirit of unity and teamwork, and the progress they made last year; as well as our shareholders, investors and partners for their valuable trust and support. In the year ahead, the gaming industry will take on a more important mission. An editorial of *People's Daily* mentioned that China's Internet is the Internet benefiting the people. Commentaries on the Xinhua News Agency also mentioned that consumer demands would propel the advancement of technology, driving the improvement and transformation of game modes and quality, which enabled us to further respect the value of technology in games. As a participant leaving a deep footprint, Qingci will continue to create quality games, so that more players, especially overseas players, can experience the charm of engaging games "made in China".

Looking forward to 2023, we will promote the launch of a number of prime games such as *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情), and *Time Voyager* (時光旅行社), as well as continue to accelerate our overseas market layout, deeply cultivate our layout of the existing regions and continue to expand to cover more regions. We will also continue to refine the key self-developed game *Project E* (項目E) and introduce more quality games so as to achieve our motto that "Produced by Qingci, it must be with good quality".

In the coming year, we are in the hope that after careful refinement, our games will be presented to you with what we think the best version.

Huang Zhiqiang

Executive Director and the Chief Executive Officer

March 28, 2023



Management Discussion and Analysis

BUSINESS OVERVIEW

As an established mobile game developer and publisher in China, we are committed to offering engaging experiences to game players around the world through our landmark and captivating games and content.

During the Reporting Period, we constantly enhanced our core competitiveness: on one hand, we deepened our integrated mode of research and operation, and made significant progress in our self-developed games and game publishing business; on the other hand, we continued to promote our global business deployment. In terms of self-developed games, we continued to push forward our plans for overseas launch of the existing games by promoting the successful release of *The Marvelous Snail* (最強蝸牛) in Japan in June 2022, which topped both the iOS free games chart and Google Play free games chart in Japan in the first week of its launch and ranked among the top 10 best-selling iOS games in Japan. We were well prepared for the launch of *The Marvelous Snail* (最強蝸牛) in Thailand and North America (local version as “Super Snail”). In terms of game publishing, we made significant progress in our pipeline games and entered into a number of significant collaborations, such as (i) the joint release of the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) with CMGE on designated platforms; and (ii) the release of the teenage girl themed mobile game *Cardcaptor Sakura: Memory Key* (魔卡少女櫻：回憶鑰匙 (also known as 庫洛魔法使：回憶鑰匙)), further enriching the Group’s game portfolio. Although the Group’s revenue and adjusted net profit decreased as compared to those of the same period in 2022 (please refer to the section headed “Financial Review” below for details), with the gradual release of revenue from *The Marvelous Snail* (最強蝸牛) in Japan in the second half of the year and the effective long-term operation, the adjusted profit attributable to equity holders of the Company for the second half of 2022 was approximately RMB126 million, turning around from loss in interim period (the adjusted loss attributable to equity holders of the Company of approximately RMB75.7 million was recorded in the first half of 2022) and the adjusted profit attributable to equity holders of the Company amounted to approximately RMB50.7 million for the whole year of 2022. During the Reporting Period, we recorded a revenue of approximately RMB630 million, with over 79 million cumulative registered players, representing a year-on-year increase of 9.80% as compared with last year. In addition, the average number of monthly active users around 1.6 million with an ARPPU of RMB262.

OUR GAMES

The Group develops, publishes and operates top-rated online mobile games. As of December 31, 2022, we had six existing mobile games, covering idle games, rogue-like RPG and other RPG.

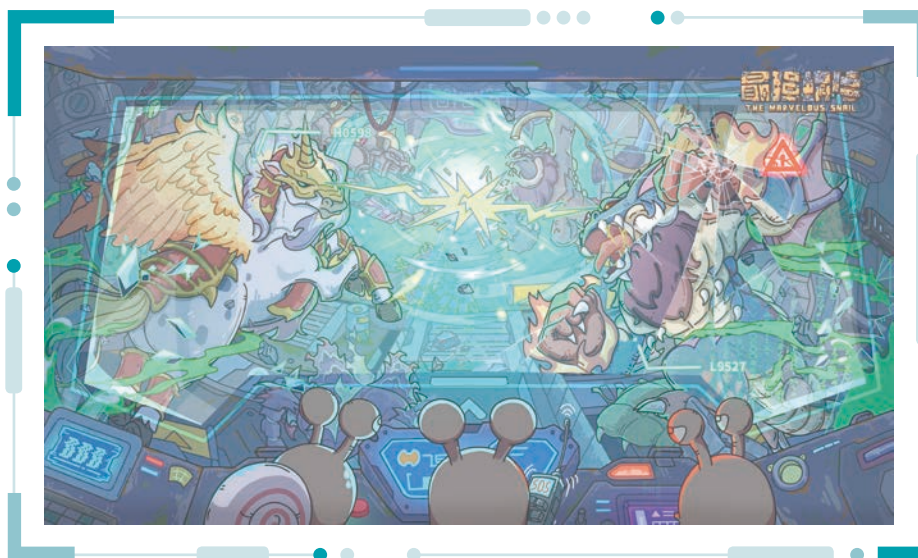
Below is an overview of our primary games:

The Marvelous Snail (最強蝸牛), officially launched in June 2020, is one of our self-developed idle games. As of December 31, 2022, the game recorded gross billings of approximately RMB2.75 billion overseas and domestically, with over 23.5 million cumulative registered players. For the year ended December 31, 2022, it had an average MAU of over 861 thousand and an average MPU of over 146 thousand. Its average weekly player retention rate has exceeded 25.83% since its launch and up to December 31, 2022, signifying the Group’s remarkable capability to operate games on a long-term basis.



MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, *The Marvelous Snail* (最強蝸牛) was successfully launched in Japan on June 8, 2022, and topped both the iOS free games chart and Google Play free games chart in the first week of its launch and ranked among the top 10 best-selling iOS games in Japan, with gross billings of approximately RMB136 million as of December 31, 2022. Domestically, we released new gameplays such as “The Second Anniversary Celebration of The Marvelous Snail – Panda Paradise” (最強蝸牛二週年慶典-熊貓樂園), “Source Beast Uprising” (源獸崛起) and “King of Cooking” (烹飪王), and entered into IP collaborations with China Aerospace, *Lotus Lantern* (寶蓮燈) and *The Monkey King* (大鬧天宮). During the Reporting Period, the revenues generated from those games amounted to approximately RMB575 million overseas and domestically.



Lantern and Dungeon (提燈與地下城), released in March 2021, is a Rogue-like RPG that we introduced through licensing. During the Reporting Period, we released its version updates such as “Anniversary” (週年慶), “Summer Celebration” (夏日慶典) and “Valley of the Giants” (巨人山谷). As of December 31, 2022, the game recorded gross billings of approximately RMB296 million with over 4.9 million registered players. For the year ended December 31, 2022, it had an average MAU of over 76.2 thousand and an average MPU of over 11.2 thousand in addition to an average weekly player retention rate of 32.20% since its launch and up to December 31, 2022. During the Reporting Period, the game generated a total revenue of approximately RMB26.1 million.

Other primary games such as *Gumballs & Dungeons* (不思議迷宮) (launched in August 2016, our self-developed rogue-like RPG), *Ares Virus* (阿瑞斯病毒) (launched in August 2018, our survival RPG introduced through licensing) and *Eternal Adventure* (無盡大冒險) (launched in June 2015, one of our self-developed classic games that combines the features of idle gameplay experience and Diablo-like adventure) also continued to contribute steady revenue to the Group, which amounted to approximately RMB13.8 million, RMB8.3 million and RMB2.2 million, respectively, during the Reporting Period.



MANAGEMENT DISCUSSION AND ANALYSIS

PLAYER COMMUNITY

We have nurtured vibrant community of players on various mobile game forums and social media platforms – QingCi Enthusiasts community. Through the QingCi community, our players can receive the latest information about our games, including the recent events we organize, opportunities to participate in testing our new games and free in-game virtual items.

We have frequent and close interactions with QingCi Enthusiasts, creating a virtuous circle as the feedback from the player community can help us to develop and improve our games, thereby attracting more active players. For example, in May 2022, the Group had adopted a giant panda at the China Giant Panda Conservation and Research Center on behalf of the QingCi players, and named it “QingCi” (青糍) through the vote of players, which has the same pronunciation of the Company’s name “Qingci” (青瓷) and has Chinese traditional cultural characteristics. The second anniversary version of the Group’s iconic game *The Marvelous Snail* (最強蝸牛) had also adopted panda element as its theme. We are also building the “Qingyu” (青宇) platform, which has basic gaming functions, including a customer service system, a live streaming system, game-themed novels and videos, and a physical item exchange system. The platform will have access to a number of Qingci’s self-developed and launched games, allowing players of different games to socialise and interact with each other on the platform, thus further enhance the stickiness of players and recognition of the “Qingci” (青瓷) brand. As of December 31, 2022, our games had accumulated 10.6264 million QingCi Enthusiasts who contacted us through our official accounts and groups on social media platforms, such as Tencent QQ, WeChat, TapTap and Bilibili, representing an increase of 0.91% as compared with the end of last year.

OUTLOOK

Looking forward, the Group will continue to enrich its pipeline games, including deploying existing games to explore overseas markets, continuing to create new prime games with original IPs and licensing in quality games.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group currently has a pipeline of 12 mobile games, covering a wide range of genres and types, including RPG, SLG, ACT RPG, etc.

Title	Mobile Game Genre	Source	Development Stage as of December 31, 2022	Expected Launch Time
Time Voyager (時光旅行社)	Rogue-like RPG	Developed in-house	Game production, testing and optimization	2023
Sword and Fairy: Wen Qing (新仙劍奇俠傳之揮劍問情)	Story mobile card game	In-licensed	Game production, testing and optimization	2023
CardCaptor Sakura: Memory Key (魔卡少女櫻：回憶鑰匙) (formerly known as: Code: Key (代號: Key))	Female-oriented casual game	In-licensed	Game production, testing and optimization	2023
Bladeheart Ninja 2 (刃心2)	Parkour	In-licensed	Game production, testing and optimization	2023
Loot Rush (騎士沖呀)	ACT RPG	In-licensed	Game production, testing and optimization	2023
Master Cat (超喵星計劃)	Casual game	In-licensed	Game production, testing and optimization	2023
Project D	STG	In-licensed	Game production, testing and optimization	2024
Ares Virus 2 (阿瑞斯病毒2)	RPG	In-licensed	Game production, testing and optimization	2024
Project E	SLG	Developed in-house	Demo production	2024
Project MN	Simulation game	In-licensed	Demo production	2025
Project 36Z	Simulation game	In-licensed	Demo production	2025
Project V	Idle game	In-licensed	Demo production	2025

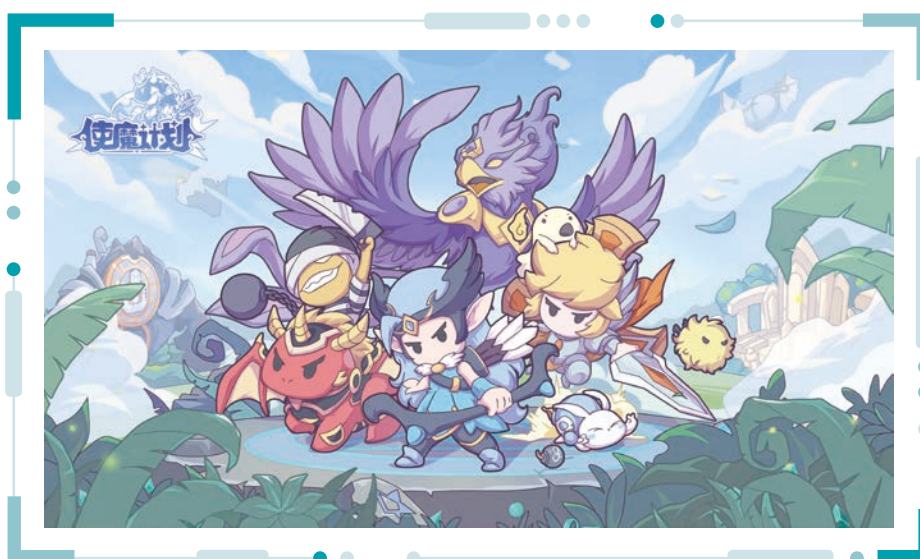
Note: During the Reporting Period, the Group optimized the allocation of resources according to the progress of the pipeline game projects, and the progress of Project A and Project C were put on hold. As of March 10, 2023, the Group added two new in-licensed games, Project 36Z and Project V.

In terms of the existing games, the Group will continue to push forward its plans for exploring overseas markets, for example, the Group's iconic game *The Marvelous Snail (最強蝸牛)* was released in Thailand on January 29, 2023 following its launch in Japan, which topped the free games chart while ranking fifth on the bestseller games list there. The game has also begun testing in North America and will be released in the coming year. In addition, an H5 version of the game is being developed, which allows players to experience the game in a more convenient way through variety of channels and is expected to be released within this year.



MANAGEMENT DISCUSSION AND ANALYSIS

In terms of self-developed games, *Servitor Project* (使魔計劃) was launched on January 4, 2023 and generated gross billings of approximately RMB25.5 million within 2 months (from January 4, 2023 to March 4, 2023). The game was created by the original development team that crafted the Group's classic *Eternal Adventure* (無盡大冒險). It is a strategy card game that adopts classical turn-based combat style, in which players pick and train a series of servitors, and equip them with selected attributes, while meeting like-minded friends to form a game union to explore various levels in a vast isekai. Another self-developed game, *Time Voyager* (時光旅行社), is making preparations for a new round of paid tests and is expected to be launched during the year. Featuring a combination of Rouge-like RPG, card and chess gameplay, it is an original worldview infinite-stream strategy game, in which players can take on the role of a Time Voyager and travel to the intertwined past, present, future, virtual and reality. It is one of the key products of the Group's pipeline games. *Project E* (項目E) is a post-apocalyptic world SLG game that is dedicated to bringing an immersive experience to the players, and is currently in the iterative stage for the demo version, aiming to bring players an upgraded experience.



In terms of in-licensed games, the Group is to join hands with CMGE in publishing the story mobile card game *Sword and Fairy: Wen Qing* (新仙劍奇俠傳之揮劍問情) on designated platforms. The game reproduces the classic single-player storyline in high definition to create a highly restorative *Sword and Fairy* experience and is planned to be launched in the first half of 2023. The Group is also planning to release *CardCaptor Sakura: Memory Key* (魔卡少女櫻：回憶鑰匙) (also known as *庫洛魔法使：回憶鑰匙*) (formerly known as *Code: Key* (代號：Key)), which is a mobile game created based on the teenage girl themed animation of *CardCaptor Sakura: Clear Card* (庫洛魔法使：透明牌篇) with genuine licensing. The game features a Chibi role known as Sakura playing with online blind box, focusing on collection and growing, etc., with a built-in AR system. The game has completed several rounds of testing and obtained a game publication number in March 2023, and is currently under planning for its subsequent launch. As of March 10, 2023, the Group added two new in-licensed games, a simulation game *Project 36Z* (項目36Z) and an idle game *Project V* (項目V), respectively. Other licensed games are also progressing well.

We will continue to search for quality game projects to build a diversified game portfolio, and will continue to expand our IP matrix and grow our Qingci Universe by developing original and iconic IPs for games, complemented by peripheral products and pan-entertainment content (such as comics, videos and other merchandise) to achieve synergies between multiple IPs in the Qingci Universe (such as embedding game elements from existing IPs into new games to connect our IPs) and bring an enjoyable gaming experience to our players around the world.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Our revenue decreased by 43.0% from approximately RMB1,105.8 million for the year ended December 31, 2021 to RMB630.4 million for the year ended December 31, 2022 on a year-on-year basis. In 2022, our revenue from Mainland China was RMB470.6 million, accounting for 74.7% of total revenue, compared to 96.1% in 2021; our revenue from other areas was RMB159.8 million, accounting for 25.3% of total revenue, compared to 3.9% in 2021. Our revenue is mainly derived from (i) game operating business where we generate revenues primarily from the sales of in-game virtual items; (ii) game licensing business where we generate revenues from license fees paid by third-party publishers; and (iii) information services business where we generate revenues from providing performance-based in-game marketing and promotion services to advertisers or their agents who promote their customers' products in our games to players.

The following table sets forth a breakdown of our revenues by line of business for the years ended December 31, 2021 and 2022.

	For the year ended December 31,				2022 vs. 2021 % Change
	2022		2021		
	RMB'000	%	RMB'000	%	
Game operating revenues					
Self-developed	557,559	88.4	790,938	71.5	(29.5)
Licensed	34,380	5.5	259,785	23.5	(86.8)
Subtotal	591,939	93.9	1,050,723	95.0	(43.7)
Game licensing revenue	27,361	4.4	35,789	3.2	(23.5)
Information service revenue	9,625	1.5	19,304	1.8	(50.1)
Other services and sales	1,442	0.2	-	-	NA
Total revenues	630,367	100.0	1,105,816	100.0	(43.0)

Game Operating Revenues

Our game operating revenues decreased by 43.7% to approximately RMB591.9 million for the year ended December 31, 2022 on a year-on-year basis. In particular,

- Our revenue from self-developed games decreased by 29.5% to approximately RMB557.6 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease in revenue from *The Marvelous Snail* (最強蝸牛) in Mainland China as it entered into the maturity stage, partially offset by the increase in revenue from the launch of *The Marvelous Snail* (最強蝸牛) in Japan.
- Our revenue from licensed games decreased by 86.8% to approximately RMB34.4 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease in revenue from *Lantern and Dungeon* (提燈與地下城) as it entered into the maturity stage.



MANAGEMENT DISCUSSION AND ANALYSIS

Game Licensing Revenue

Our game licensing revenue decreased by 23.5% to approximately RMB27.4 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease in game licensing revenues from *Gumballs & Dungeons* (不思議迷宮) in Mainland China and *The Marvelous Snail* (最強蝸牛) in Hong Kong, Macau and Taiwan, respectively.

Information Service Revenue

Our information service revenue decreased by 50.1% to approximately RMB9.6 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to fewer in-game advertisement views or clicks.

Other Services and Sales

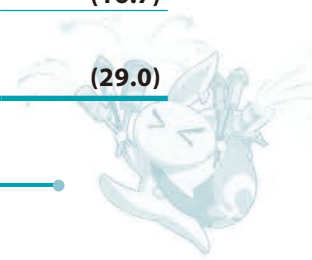
Our other revenues and services increased to approximately RMB1.4 million for the year ended December 31, 2022 from nil in the previous year, primarily due to the commencement of technical supporting services.

Cost of Revenues

Our cost of revenues decreased by 29.0% from approximately RMB293.2 million for the year ended December 31, 2021 to RMB208.3 million for the year ended December 31, 2022 on a year-on-year basis. Our cost of revenues primarily consisted of (i) commissions charged by distribution and payment channels, representing revenue share payments to third-party distribution platforms and payment service providers for our self-published games; (ii) commissions charged by third-party game developers; (iii) bandwidth and servers custody fee; (iv) employee benefits expenses related to our system maintenance and customer service personnel, including wages, salaries, bonuses, social insurance contributions and other employee benefits; and (v) others, including outsourced technical service fees for short messaging services, professional service fees and miscellaneous expenses.

The following table sets forth our cost of revenues by nature in absolute amounts and as percentages of our total cost of revenues for the years ended December 31, 2022 and 2021.

	For the year ended December 31,				2022 vs. 2021 % Change
	2022		2021		
	RMB'000	%	RMB'000	%	
Commissions charged by distribution and payment channels	146,296	70.2	206,825	70.5	(29.3)
Commissions charged by third-party game developers	11,109	5.3	40,919	14.0	(72.9)
Bandwidth and servers custody fee	20,734	10.0	21,862	7.5	(5.2)
Employee benefits expenses	18,133	8.7	9,193	3.1	97.2
Others	12,008	5.8	14,418	4.9	(16.7)
Total	208,280	100.0	293,217	100.0	(29.0)



MANAGEMENT DISCUSSION AND ANALYSIS

Our cost of revenue for commissions charged by distribution and payment channels decreased by 29.3% to approximately RMB146.3 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to lower commissions paid to distribution platforms due to the decrease in game operating revenues.

Our cost of revenue for commissions charged by third-party game developers decreased by 72.9% to approximately RMB11.1 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease in commissions paid to third-party developers as a result of the decrease in revenue from *Lantern and Dungeon* (提燈與地下城) as it entered into the maturity stage.

Our cost of revenue for employee benefits expenses increased by 97.2% to approximately RMB18.1 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the increase in number of employees and the increase in average salary of staff.

Our cost of revenue for others decreased by 16.7% to approximately RMB12.0 million for the year ended December 31, 2022 on a year-on-year basis, primarily due to the decrease in outsourced technical service fees for short messaging services.

Gross Profit and Gross Margin

Our gross profit decreased by 48.1% from approximately RMB812.6 million for the year ended December 31, 2021 to approximately RMB422.1 million for the year ended December 31, 2022. Our gross margin decreased to 67% for the year ended December 31, 2022 from 73% for 2021, primarily due to (i) a decrease of 43.7% in game operating revenues for the Reporting Period on a year-over-year basis, and a decrease of 29.3% in commissions charged by distribution and payment channels (the “Channel Commissions”) in the cost of revenues on a year-over-year basis, resulting in the decrease of gross margin. Further, the proportion of overseas game operating revenues in the total game operating revenues increased from 2% in the same period last year to 23% in the Reporting Period, and the proportion of overseas Channel Commissions to revenues was higher than that of domestic Channel Commissions. Therefore, the increase in the proportion of overseas game operating revenues led to a higher rate of decline in game operating revenues than that of Channel Commissions, which in turn led to a drop in gross margin for the Reporting Period; (ii) revenue for the Reporting Period decreased by 43% as compared to that of the same period last year, and an increase in an aggregate of RMB5.4 million in three types of fixed expenses under cost of revenue namely (1) employee benefits expenses; (2) bandwidth and servers custody fee; and (3) others during the Reporting Period, comparing to the same period last year, which led to a drop in gross margin.

Selling and Marketing Expenses

Our selling and marketing expenses consisted of (i) marketing and promotion expenses paid to our online and offline marketing service providers, including traffic acquisition and brand marketing and promotion expenses, which represented 90.0% and 70.4% of our total selling and marketing expenses for the years ended December 31, 2021 and 2022, respectively; (ii) employee benefits expenses related to our sales and marketing personnel; and (iii) others, including office expenses incurred for our sales and marketing activities and miscellaneous expenses.



MANAGEMENT DISCUSSION AND ANALYSIS

Our selling and marketing expenses decreased by 31.2% from approximately RMB304.2 million for the year ended December 31, 2021 to approximately RMB209.3 million for the year ended December 31, 2022. This was primarily due to the decrease in marketing and promotion expenses as *The Marvelous Snail* (最強蝸牛) in Mainland China and the *Lantern and Dungeon* (提燈與地下城) reached the mature stage of their life cycles, despite the partial set-off by the increase in marketing and promotion expenses for the launch of *The Marvelous Snail* (最強蝸牛) in Japan.

Research and Development Expenses

Our research and development expenses consisted of (i) employee benefits expenses related to our R&D staff; (ii) outsourced technical service fee; and (iii) others, including office expenses incurred for our R&D activities, depreciation of right-of-use assets, rental expenses, utilities and miscellaneous expenses.

Our R&D expenses increased by 24.2% from approximately RMB91.2 million for the year ended December 31, 2021 to approximately RMB113.3 million for the year ended December 31, 2022. This was primarily due to the increase in R&D investment for the pipeline games of the Company and the increase in the number of employees engaged in R&D activities.

General and Administrative Expenses

Our general and administrative expenses consisted of (i) employee benefits expenses related to our supporting staff; (ii) share-based compensation; (iii) depreciation of right-of-use assets on our leases; (iv) tax surcharges, including VAT surcharges and stamp duties; (v) rental expenses and utilities; and (vi) others, including office expenses, depreciation of property, plant and equipment, professional service fees and miscellaneous expenses.

Our general and administrative expenses decreased by 17.4% from approximately RMB86.9 million for the year ended December 31, 2021 to approximately RMB71.8 million for the year ended December 31, 2022. This was primarily due to the removal of the impact from one-off listing expenses of approximately RMB45.8 million incurred in 2021, which was partially set-off by (i) the increase in the number of employees related to our supporting staff and the average salary of staff; (ii) the increase in amortization of right-of-use assets and renovation cost of a newly leased workplace; and (iii) the increase in professional service fees.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

Our fair value changes on investments measured at fair value through profit or loss reflected changes in the fair value of (i) certain of our long-term equity investments, which were equity investments in private equity funds as limited partners without significant influence, and investments in investee companies; and (ii) our short-term investments, primarily consisting of investments in derivative instruments with a major PRC commercial bank and investments in funds that invest primarily in publicly-traded securities.

Our fair value gains on investments measured at fair value through profit or loss increased by 631.7% from approximately RMB5.0 million for the year ended December 31, 2021 to approximately RMB36.8 million for the year ended December 31, 2022, mainly due to the increase in our fair value gains from investment funds.



MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Our other income primarily consisted of subsidies, mainly including government subsidies granted by local governments to support our R&D activities and in recognition of our contribution to local economic development.

Our other income decreased by 45.8% from approximately RMB11.1 million for the year ended December 31, 2021 to approximately RMB6.0 million for the year ended December 31, 2022, mainly due to the decrease in R&D subsidies and government subsidies.

Other Gains/(Losses), Net

Our net other losses primarily consisted of (i) net foreign exchange gains or losses arising from revenue and trade receivables denominated in USD; (ii) donations to charity organizations.

Our other net gains/(losses) increased by 272.2% from net losses of approximately RMB9.4 million for the year ended December 31, 2021 to net gains of approximately RMB16.1 million for the year ended December 31, 2022, this change was primarily a result of the impact of appreciation of USD against RMB in 2022 on our revenue and trade receivables denominated in USD.

Income Tax (Expenses)/Benefit

Our income tax (expenses)/benefit decreased by 200.8% from income tax benefit of approximately RMB32.6 million for the year ended December 31, 2021 to income tax expenses of approximately RMB32.9 million for the year ended December 31, 2022, mainly because (i) the applicable income tax rate for a profitable subsidiary increased (from 0% to 15%). The subsidiary is accredited as a “software enterprise” under the relevant PRC laws and regulations. It was exempted from corporate income tax for the year 2021 and adopted “high-tech enterprise” preferential income tax of 15% for the year 2022; and (ii) the Group did not further recognize deferred tax assets and reverted part of the previously recognized deferred tax assets in the Reporting Period.

Profit/(Loss) for the Year

Our profit/(loss) for the year increased by 112.4% from a net loss of approximately RMB368.6 million for the year ended December 31, 2021 to a net profit of approximately RMB45.7 million for the year ended December 31, 2022, mainly due to the main factors that led to the loss for the same period last year including (i) changes in fair value of convertible redeemable preference shares; and (ii) the financial instruments issued to investors, which no longer exists during the Reporting Period, and the two items in aggregate generated losses of approximately RMB745.0 million for the same period last year.

Profit/(Loss) for the Year Attributable to Equity Holders of the Company

Our profit/(loss) for the year attributable to equity holders of the Company increased by 113.7% from a net loss of approximately RMB367.2 million for the year ended December 31, 2021 to a net profit of approximately RMB50.3 million for the year ended December 31, 2022, mainly due to the main factors that led to the loss for the same period last year including (i) changes in fair value of convertible redeemable preference shares; and (ii) financial instruments issued to investors, which no longer exists during the Reporting Period.



MANAGEMENT DISCUSSION AND ANALYSIS

Non-IFRS Measures – Adjusted Net Profit

To supplement our consolidated financial information which is presented in accordance with IFRS, we set forth below our adjusted net profit as an additional financial measure which is not presented in accordance with IFRS. We believe this is meaningful because potential impacts of certain items which our management do not consider closely relevant to our operating performance have been excluded, and this would be useful for investors to compare our financial results directly with those of our peer companies.

Adjusted net profit eliminates the effect of certain non-cash or non-recurring items, namely (i) changes in fair value of convertible redeemable preference shares; (ii) losses from financial instruments issued to investors; (iii) listing-related expenses; and (iv) share-based compensation. The term “adjusted net profit” is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. The following table reconciles our adjusted net profit for the periods indicated to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended	
	December 31,	
	2022	2021
	(RMB'000)	(RMB'000)
Profit/(loss) for the year	45,656	(368,638)
Add:		
Changes in fair value of convertible redeemable preference shares	–	691,052
Losses from financial instruments issued to investors	–	53,928
Listing-related expenses	–	45,805
Share-based compensation	519	–
Adjusted net profit	46,175	422,147

The adjusted net profit for the year ended December 31, 2022 decreased by 89.1% to approximately RMB46.2 million as compared with approximately RMB422.1 million for the year ended December 31, 2021. Such decrease was primarily attributable to (i) the decrease in revenue from our landmark games as they reached the mature stage of their life cycle; (ii) the reversal of part of the deferred tax assets recognized in the previous years during the Reporting Period and the increase in the applicable income tax rate for a profitable subsidiary (from 0% to 15%), which led to the increase in income tax expenses; and (iii) the continuing increase in R&D investment for the pipeline games and the increase in the number of employees engaged in R&D activities.



MANAGEMENT DISCUSSION AND ANALYSIS

Adjusted Profit Attributable to Equity Holders of the Company

Adjusted profit attributable to equity holders of the Company for the year ended December 31, 2022 decreased by 88.0% to approximately RMB50.7 million as compared with approximately RMB423.6 million for the year ended December 31, 2021. Such decrease was primarily attributable to (i) the decrease in revenue from our landmark games as they reached mature stage of their life cycle; (ii) the reversal of part of deferred tax assets recognized in the previous years during the Reporting Period and the increase in the applicable income tax rate for a profitable subsidiary (from 0% to 15%), which led to the increase in income tax expenses; and (iii) the continuing increase in R&D investment for the pipeline games and the increase in the number of employees engaged in R&D activities.

Liquidity, Capital Resources and Gearing Ratio

We fund our operations primarily through cash generated from our operating activities and capital contribution from our Shareholders.

As of December 31, 2022, the Group's total cash and cash equivalents decreased by 14.2% from approximately RMB1,168.1 million for the year ended December 31, 2021 to approximately RMB1,001.9 million for the year ended December 31, 2022. The decrease in total cash and cash equivalents during the Reporting Period was primarily due to (i) the usage of proceeds raised from the Global Offering; and (ii) the usage of part of our own funds for short-term investments.

As of December 31, 2022, we did not have any borrowings. As of the same date, we had a banking facility of RMB59.0 million, and we drew down approximately RMB2.8 million as deposit to secure our obligations under our foreign currency forward contract.

As of December 31, 2022, the current assets of the Group amounted to approximately RMB1,613.6 million, and the current liabilities of the Group amounted to approximately RMB140.9 million. As of December 31, 2021, the Group's current assets amounted to approximately RMB1,615.9 million and the Group's current liabilities amounted to approximately RMB199.8 million. Current ratio is calculated as total current assets divided by total current liabilities. As of December 31, 2022 and 2021, the current ratio of the Group was 1,145% and 809%, respectively.

Gearing ratio is calculated as total liabilities divided by total assets. As of December 31, 2022 and 2021, the gearing ratio of the Group was 8% and 12%, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2022, revenue generated from the Group's five largest customers accounted for 5% (2021: 5%) of the Group's total revenue and our single largest customer accounted for 4% (2021: 3%) of the Group's total revenue.



MANAGEMENT DISCUSSION AND ANALYSIS

Certain subsidiaries of G-bits, a substantial shareholder of our Company, have published our games. We refer to G-bits and its subsidiaries as the G-bits Group. G-bits Group is the single largest customer of the Group for the year ended December 31, 2022. In addition, Chengdu Niuwan Qihao Culture Innovation Co., Ltd.* (成都牛玩柒號文化創意有限公司), one of the Group's five largest customers, is an associate in which we have minority interests. Except for these companies, all of our five largest customers for the year ended December 31, 2022 were Independent Third Parties, and none of our Directors, their close associates or any Shareholders which, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the Group's five largest customers. We deal with all of our customers at arm's length. We negotiate game publishing agreements with the G-bits Group based solely on commercial considerations, and the transaction terms with them are comparable to those with Independent Third-Party customers.

Major Suppliers

For the year ended December 31, 2022, the Group's five largest suppliers accounted for 42% (2021: 49%) of the Group's total purchases and our single largest supplier accounted for 22% (2021: 20%) of the Group's total purchases.

Alibaba Cloud Computing Ltd.* (阿里雲計算有限公司), one of the Group's five largest suppliers for the year ended December 31, 2022, is a subsidiary of Alibaba (whom to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company), and provides server services to us. Details of Alibaba's interest in the Company are set out in the section headed "Substantial shareholders' interests and short positions in shares and underlying shares" in the "Report of the Directors" below. Except for this company, all of our five largest suppliers for the year ended December 31, 2022 were Independent Third Parties, and none of our Directors, their close associates or any Shareholders who, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company has any interest in any of the Group's five largest suppliers.

Material Acquisitions and Disposals and Significant Investments

As at December 31, 2022, the Group's short-term investments measured at fair value through profit or loss increased by 37.8% from approximately RMB355.3 million as at December 31, 2021 to approximately RMB489.7 million as at December 31, 2022. The short-term investments mainly included investment funds and wealth management products. The increase was mainly attributable to the improvement of utilization of its own fund by the Group during the Reporting Period, in order to further enhance the yields of its cash assets. For the year ended December 31, 2022, no single investment of the Group accounted for more than 5% of the total assets of the Group.

Except for the above, the Group did not have any material acquisitions and disposals and significant investments during the year ended December 31, 2022.

Pledge of Assets

As of December 31, 2022, we did not pledge any of our assets.

* For identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

For the year ended December 31, 2022, our total capital expenditure was approximately RMB14.4 million, compared to approximately RMB5.9 million for the year ended December 31, 2021. Our capital expenditure primarily included our purchase of property, plant and equipment, mainly related to the purchase of office equipment and vehicles. We funded these expenditures with cash generated from our operations. We plan to fund our future capital expenditures with our cash from operating activities.

Contingent Liabilities

As of December 31, 2022, we did not have any material contingent liabilities.

Foreign Exchange Risk Management

We operate globally through overseas third-party publishers and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Our foreign exchange risk primarily arose from recognized assets and liabilities when receiving or to receive foreign currencies from overseas counterparties. We managed our foreign exchange risk exposures through foreign currency forward contracts during the year ended December 31, 2022.



Report of The Directors

The Board of the Company is pleased to present this annual report of Directors together with the Consolidated Financial Statements of the Group for the year ended December 31, 2022.

PRINCIPAL ACTIVITIES

We are an established mobile game developer and publisher in China, offering mobile games that are designed to provide captivating content as well as distinctive and engaging gameplay experiences to players in mainland China and overseas. As a leader in casual games, especially idle games, and rogue-like RPGs in China, we have developed, published and operated a number of popular games.

An analysis of the Group's revenue and operating results for the year ended December 31, 2022 by its principal activities is set out in Management Discussion and Analysis section.

Particulars of the Company's principal subsidiaries as at December 31, 2022 are set out in Note 1 "History and reorganisation of the Group" to the Consolidated Financial Statements.

BUSINESS REVIEW

A fair review of the business of the Group, the outlook of future development of the business of the Group as well as a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its financial performance and financial position as required by section 388(2) and Schedule 5 to the Companies Ordinance can be found in the section headed "Management Discussion and Analysis" of this annual report.

The financial risk management objectives and policies of the Group are set out in Note 3 "Financial Risk Management" to the Consolidated Financial Statements.

Further details relating to the Group's relationships with its key stakeholders, the Group's environmental policies and performance, as well as the compliance with the relevant laws and regulations that have a significant impact on the Group can be found in the "Environmental, Social and Governance Report" on pages 50 to 97. The "Management Discussion and Analysis" and the "Environmental, Social and Governance Report" form part of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the financial position of the Group for the last five years is set out on page 236 of this annual report.

RESULTS

The results of the Group for the year ended December 31, 2022 are set out in the Consolidated Financial Statements on pages 125 to 235.



REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the “**2022 AGM**”) will be held on Tuesday, June 6, 2023. The notice of the 2022 AGM will be published on the websites of the Company (www.qcplay.com) and the Stock Exchange (www.hkexnews.hk) and sent to the Shareholders in April 2023.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2022.

CLOSURE OF REGISTER OF MEMBERS

In relation to the 2022 AGM

For ascertaining Shareholders’ right to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Thursday, June 1, 2023 to Tuesday, June 6, 2023, both days inclusive, during which period no transfer of Shares will be effected.

In order to be eligible to attend and vote at the forthcoming 2022 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, May 31, 2023 for registration.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed in promoting a sustainable and environmental friendly environment. We endeavour to comply with the relevant laws and regulations regarding environmental protection and implement effective measures to achieve efficient use of resources, waste reduction and energy saving. For instance, (1) special personnel are arranged to inspect the waste of resources irregularly, for example, whether electrical power such as electronic equipment, lights and air conditioning are switched off or not; (2) reminders such as “Saving Power” are put up to the air conditioning and light switches; and (3) all end-of life electronic equipment and some equipment with secondary use value are handed over to suppliers with recycling qualifications for disposal in the daily operation and office activities. We also review our environmental policies on a regular basis.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Listing Rules, the Company’s “Environmental, Social and Governance Report” can be found on pages 50 to 97.



REPORT OF THE DIRECTORS

PRINCIPAL RISKS AND UNCERTAINTIES

We face various risks involved in our daily business operations, including risks that are specific to our game publishing business as well as the industry and regulatory landscape in the PRC. In particular, our commercial launch of mobile games is subject to certain pre-approval and post-filing procedures with the relevant competent regulatory authorities in the PRC, which may change from time to time. For details, please refer to the sections headed “Risk Factors” and “Business–Legal Proceedings and Regulatory Compliance” in the Prospectus.

We also operate our business under contractual arrangements, and are therefore subject to the related risks which are summarized in the section headed “Contractual Arrangements–Risks relating to the Contractual Arrangements” on pages 37 to 43 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to various PRC laws and regulations in relation to its game publishing operations in the PRC, including, without limitation, in the aspects of value-added telecommunication services, game examination, publishing and operation, virtual currency, real-name registration, anti-addiction system, information security and censorship, and privacy protection.

As far as the Board and the management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

BOARD COMMITTEES

Please refer to pages 98 to 124 of the Corporate Governance Report for further details in relation to (1) Remuneration Committee, (2) Audit Committee, and (3) Nomination Committee as established by the Board.



REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Reporting Period and up to the Latest Practicable Date were:

Executive Directors

Mr. Yang Xu (*Chairman*)
 Mr. Huang Zhiqiang (*Chief executive officer*)
 Mr. Liu Siming
 Mr. Zeng Xiangshuo

Independent Non-executive Directors

Mr. Zhang Longgen
 Professor Lam Sing Kwong Simon
 Ms. Fang Weijin

In accordance with article 16.19 of the Articles of Association, at every annual general meeting of the Company 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 provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, Mr. Zhang Longgen, Professor Lam Sing Kwong Simon and Ms. Fang Weijin shall retire from office by rotation at the forthcoming 2022 AGM and, being eligible, will offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with us under which they agreed to act as Executive Directors for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner), which may be terminated by not less than three months' notice in writing served by either the Executive Director or us.

Each of the Independent Non-executive Directors has signed an appointment letter with us for an initial term of three years or until the third annual general meeting of our Company since the Listing Date (whichever is sooner), respectively, with effect from the Listing Date. Under their respective appointment letters, each of the Independent Non-executive Directors is entitled to a fixed Director's fee.

The above appointments are always subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the Directors has entered into a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended December 31, 2022. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Related Party Transactions" below and Note 35 "Related Party Transactions" to the Consolidated Financial Statements, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the Reporting Period.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

EMPLOYEES, REMUNERATION AND PENSION SCHEME

As of December 31, 2022, we had 606 full-time employees, substantially all of whom were based in China and 15 of whom were based overseas.

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 recruit talent primarily from job fairs as well as word-of-mouth referrals. We provide regular training to our employees covering various aspects including our culture and technical know-how. We also follow up with the employees to evaluate the effect of the training, which is aimed at enhancing our employees' skillset and helping them stay up to date with industry and technology developments. In addition, we discover and incubate future game producers who display strong innovation and game design talent. We encourage and support our employees keen on mobile game development to become our producers. They may form new core project teams with other like-minded employees to develop new games.



REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management are supervised by the Remuneration Committee and determined by the Board with reference to their duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in Note 7 "Directors' and chief executive's emoluments" to the Consolidated Financial Statements.

For the year ended December 31, 2022, the emoluments of senior management team (which comprises our executive Directors and other senior management members) fell within the following bands:

	Number of individuals
Emolument bands (in HKD)	
HKD6,000,001-HKD6,500,000	1
HKD8,500,001-HKD9,000,000	1
HKD9,000,001-HKD9,500,000	1
HKD12,000,001-HKD12,500,000	1
HKD17,000,001-HKD17,500,000	1
Total	5

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2022, 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.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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



REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in Note 14 “Property, Plant and Equipment” to the Consolidated Financial Statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the Reporting Period and details of the Shares issued during the Reporting Period are set out in Note 24 “Share Capital And Share Premium” to the Consolidated Financial Statements.

DONATION

During the Reporting Period, the Group made RMB3.41 million of charitable donation to public welfare and charitable organizations.

DEBENTURE ISSUED

The Group did not issue any debenture during the Reporting Period.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the Reporting Period.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2022 are set out on page 235 to the Consolidated Financial Statements. The distributable reserves of the Company as at December 31, 2022 were approximately RMB5,118 million.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2022 are set out in the section headed “Management Discussion and Analysis” in this annual report.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 98 to 124 of this annual report.



REPORT OF THE DIRECTORS

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

As at the Latest Practicable Date, the interests or short positions of our Directors and chief executives in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest ⁽¹⁾
Mr. Yang Xu (“ Mr. Yang ”) ⁽²⁾	Settlor of a discretionary trust	206,057,019	29.81%
Mr. Huang Zhiqiang (“ Mr. Huang ”) ⁽³⁾	Settlor of a discretionary trust	25,015,715	3.62%
	Interest in controlled corporation	37,307,058	5.40%
Mr. Liu Siming (“ Mr. Liu ”) ⁽⁴⁾	Settlor of a discretionary trust	12,842,792	1.86%
Mr. Zeng Xiangshuo (“ Mr. Zeng ”) ⁽⁵⁾	Interest in controlled corporation	7,439,214	1.08%

Notes:

- (1) The calculation is based on the total number of issued shares of the Company as at the Latest Practicable Date, being 691,330,500 Shares.



REPORT OF THE DIRECTORS

- (2) *The Company is held as to 29.81% by Keiskei Holding Ltd., following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Keiskei Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Yang Family Holding Limited and 1% by Keiskei QC Ltd., a company wholly-owned by Mr. Yang. Yang Family Holding Limited is held by the Peter Yang Family Trust, which was established by Mr. Yang as the settlor. TMF (Cayman) Ltd. is the trustee of the Peter Yang Family Trust, and Mr. Yang and his family members are the beneficiaries of the Peter Yang Family Trust. As such, Mr. Yang is deemed to be interested in our Shares held by Keiskei Holding Ltd. Mr. Yang is also a director of Keiskei Holding Ltd.*
- (3) *The Company is held as to 3.62% and 5.40% by Intelligence QC Holding Ltd. and Intelligence QC Ltd., respectively, following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Intelligence QC Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Intelligence Future Holding Limited and 1% by Intelligence QC Ltd., a company wholly-owned by Mr. Huang. Intelligence Future Holding Limited is held by Intelligence Future Trust, which was established by Mr. Huang as the settlor. TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, and Mr. Huang and his family member are the beneficiaries of the Intelligence Future Trust. As such, Mr. Huang is deemed to be interested in our Shares held by Intelligence QC Holding Ltd. and Intelligence QC Ltd.. Mr. Huang is also a director of Intelligence QC Holding Ltd.*
- (4) *The Company is held as to 1.86% by Gentle Tiger Holding Ltd., following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Gentle Tiger Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Sebastian Family Holding Limited and 1% by Gentle Tiger Ltd., a company wholly-owned by Mr. Liu. Sebastian Family Holding Limited is held by the Sebastian Family Trust, which was established by Mr. Liu as the settlor. TMF (Cayman) Ltd. is the trustee of the Sebastian Family Trust, and Mr. Liu and his family members are the beneficiaries of the Sebastian Family Trust. As such, Mr. Liu is deemed to be interested in our Shares held by Gentle Tiger Holding Ltd. Mr. Liu is also a director of Gentle Tiger Holding Ltd.*
- (5) *Cloud Rings Ltd. is a company incorporated in the BVI which owns 7,439,214 shares of the Company and is wholly-owned by Mr. Zeng. As such, Mr. Zeng is deemed to be interested in the 7,439,214 Shares held by Cloud Rings Ltd.*

Save as disclosed above, so far as the Directors and the chief executive of the Company are aware, none of the Directors or the chief executive of the Company had registered an interest or short position in any Shares or underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified under Division 7 and 8 of Part XV of the SFO or recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



REPORT OF THE DIRECTORS

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

As at the Latest Practicable Date, the interests of relevant persons (other than a Director or the chief executive of the Company) who had interests or short positions in the Shares or the underlying shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Director	Nature of interest	Number of Shares or	Approximate percentage of shareholding interest ⁽¹⁾
Keiskei Holding Ltd. ⁽²⁾	Beneficial owner (L)	206,057,019	29.81%
Yang Family Holding Limited ⁽²⁾	Interest in controlled corporation (L)	206,057,019	29.81%
Mr. Yang ⁽²⁾	Settlor of a discretionary trust (L)	206,057,019	29.81%
HK Kunpan ⁽³⁾	Beneficial owner (L)	128,243,058	18.55%
G-bits ⁽³⁾	Interest in controlled corporation (L)	128,243,058	18.55%
Intelligence QC Ltd. ⁽⁴⁾	Beneficial owner (L)	37,307,058	5.40%
Mr. Huang ⁽⁴⁾	Settlor of a discretionary trust (L)	25,015,715	3.62%
	Interest in controlled corporation (L)	37,307,058	5.40%
Rapid Yacht Limited ⁽⁵⁾	Beneficial interest (L)	50,156,076	7.26%
Mr. Ye Jiting ("Mr. Ye") ⁽⁵⁾	Interest in controlled corporation (L)	50,156,076	7.26%
TMF (Cayman) Ltd. ⁽⁶⁾	Trustee (L)	243,915,526	35.28%
Alibaba Qookka ⁽⁷⁾	Beneficial interest (L)	36,884,938	5.34%
Alibaba ⁽⁷⁾	Interest in controlled corporation (L)	36,884,938	5.34%

Notes:

(1) The calculation is based on the total number of issued shares of the Company as at the Latest Practicable Date, being 691,330,500 Shares.



REPORT OF THE DIRECTORS

- (2) *The Company is held as to 29.81% by Keiskei Holding Ltd., following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Keiskei Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Yang Family Holding Limited and 1% by Keiskei QC Ltd., a company wholly-owned by Mr. Yang. Yang Family Holding Limited is held by the Peter Yang Family Trust, which was established by Mr. Yang as the settlor. TMF (Cayman) Ltd. is the trustee of the Peter Yang Family Trust, and Mr. Yang and his family members are the beneficiaries of the Peter Yang Family Trust. As such, Mr. Yang is deemed to be interested in our Shares held by Keiskei Holding Ltd.. Mr. Yang is also a director of Keiskei Holding Ltd..*
- (3) *HK Kunpan is a direct wholly-owned subsidiary of G-bits.*
- (4) *The Company is held as to 3.62% and 5.40% by Intelligence QC Holding Ltd. and Intelligence QC Ltd., respectively, following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Intelligence QC Holding Ltd. is a company incorporated in the BVI and is held as to 99% by Intelligence Future Holding Limited and 1% by Intelligence QC Ltd., a company wholly-owned by Mr. Huang. Intelligence Future Holding Limited is held by Intelligence Future Trust, which was established by Mr. Huang as the settlor. TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, and Mr. Huang and his family member are the beneficiaries of the Intelligence Future Trust. As such, Mr. Huang is deemed to be interested in our Shares held by Intelligence QC Holding Ltd. and Intelligence QC Ltd.. Mr. Huang is also a director of Intelligence QC Holding Ltd.*
- (5) *The Company is held as to 7.26% by Rapid Yacht Limited following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022, and Rapid Yacht Limited is wholly owned by Mr. Ye. As such, Mr. Ye is deemed to be interested in our Shares held by Rapid Yacht Limited.*
- (6) *TMF (Cayman) Ltd. is the trustee of Intelligence Future Trust, Peter Yang Family Trust and Sebastian Family Trust which in aggregate held 243,915,526 Shares. Hence, TMF (Cayman) Ltd. is deemed to be interested in such 243,915,526 Shares as a trustee.*
- (7) *Alibaba Qookka is ultimately owned by Alibaba.*

Saved as disclosed above, so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO, or as otherwise notified.



REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of the related party transactions were set out in Note 35 “Related Party Transactions” to the Consolidated Financial Statements. Details of any related party transaction which constitute continuing connected transaction not exempted under Chapter 14A of the Listing Rules are disclosed below.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of our Group constitute the continuing connected transactions of the Company for the year ended December 31, 2022.

Connected Persons

G-bits, through its indirect wholly-owned subsidiary, HK Kunpan, held 18.55% of the total issued shares in the Company following the completion of the Global Offering and the partial exercise of the Over-allotment Option on January 7, 2022. Accordingly, G-bits is a substantial shareholder of our Group, and therefore G-bits and its subsidiaries are connected persons of our Company pursuant to Chapter 14A of the Listing Rules.

Property Leasing and Administrative Services

On November 18, 2021, the Company and G-bits entered into a property leasing and administrative services framework agreement (the “**Property Leasing and Administrative Services Framework Agreement**”) pursuant to which G-bits and/or its subsidiaries shall lease to our Group office premises in an office building located in Xiamen, the PRC with an aggregate gross area of approximately 2,831.49 square meters as office premises and provide to our Group ancillary office administrative services for these office premises. We may rent additional property space from G-bits or its subsidiaries in accordance with the actual demand of our Group. The relevant tenants from our Group and the relevant landlords among G-bits and its subsidiaries shall enter into separate lease and administrative services agreements which shall set out the specific terms and conditions pursuant to the principles and conditions provided in the Property Leasing and Administrative Services Framework Agreement.

The initial term of the Property Leasing and Administrative Services Framework Agreement shall commence on the Listing Date and expire on December 31, 2023.

Reasons for and benefits of the transactions

Our Group have been leasing the abovementioned office premises for its business operations for more than four years. Any relocation may cause unnecessary disruption to our business operation and incur unnecessary costs.



REPORT OF THE DIRECTORS

Annual caps

The annual caps of the aggregate lease and administrative services payments to be made by our Group under the Property Leasing and Administrative Services Framework Agreement for the years ending December 31, 2022 and 2023, respectively, are set out in the table below:

	For the years ending December 31,	
	2022 (RMB'000)	2023 (RMB'000)
Lease and administrative services payments payable by our Group to G-bits Group	5,400	6,480

The total amount incurred by the Group under the Property Leasing and Administrative Services Framework Agreement for the year ended December 31, 2022 was approximately RMB3 million.

Game Cooperation with G-bits

On November 18, 2021, we and G-bits entered into a game cooperation framework agreement (“**Game Cooperation Framework Agreement**”), pursuant to which, our Group agreed to (i) license games of G-bits Group for publishing and operating on our platforms in designated regions on an exclusive basis (expense-based); and (ii) license our games to G-bits Group for publishing and operating such games on their platforms in designated regions on an exclusive basis (revenue-based). Our Group and G-bits Group also agreed to participate in marketing games licensed to the exclusive publication and operation of the other party. Our Group and G-bits Group shall pay fees to each other (as the case may be). The precise scope of cooperation, the calculation of fees and other details of the cooperation shall be agreed between the relevant parties separately.

The initial term of the Game Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2023.

Reasons for and benefits of the transactions

G-bits develops, publishes and operates a large number of online games in the PRC. While we typically publish and operate games which we self-developed, we also have commercial liberty to (i) engage third-party publishers to publish and operate games we self-developed; and (ii) obtain licenses from third-party game developers to publish and operate games owned by them to maximize our earnings. It is expected that our Group and G-bits Group could leverage each other’s competitive advantages in products and platforms and players’ pool to improve popularity of games owned by each other, increase the number of platform users and leverage each other’s game publishing and operating capabilities.



REPORT OF THE DIRECTORS

Annual caps

The annual caps for the fees payable by our Group to G-bits Group and the fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement for the years ending December 31, 2022 and 2023, respectively, are set out in the table below:

	For the years ending December 31,	
	2022 (RMB'000)	2023 (RMB'000)
(a) Fees payable by our Group to G-bits Group (<i>Expense-based</i>)	54,000	25,000
(b) Fees payable by G-bits Group to our Group (<i>Revenue-based</i>)	38,400	33,600

The total fees payable by our Group to G-bits Group (expense-based) and by G-bits Group to our Group (revenue-based) under the Game Cooperation Framework Agreement for the year ended December 31, 2022 were approximately RMB nil and RMB25 million, respectively. We did not incur any fees payable by our Group to G-bits Group under the Game Cooperation Framework Agreement during the Reporting Period as we have been preparing for the launching of the games we licensed from G-bits Group during the Reporting Period.

Marketing and Promotion Cooperation with G-bits

Pursuant to the Game Cooperation Framework Agreement, our Group and G-bits Group also agreed to cooperate on marketing and promoting games owned by the other party on its own platforms. G-bits Group shall provide marketing and promotion services, including but not limited to marketing, promotion and advertising to our Group for our games on platforms operated by G-bits Group. Meanwhile, our Group shall provide marketing and promotion services, including but not limited to marketing, promotion and advertising to G-bits Group for G-bits Group's games on platforms operated by our Group.

In return for the marketing and promotion services provided, our Group and G-bits Group will pay the other party marketing and promotion fees using one or more of the following methods, depending on the means of cooperation:

- Cost per action: charged based on the number of newly activated users;
- Cost per click: charged based on the price of each click and number of clicks of online users;
- Cost per sale: charged based on the users' actual top-up amount;
- Fixed amount of marketing and promotion fee with reference to the prevailing market rates; or
- Other fee arrangements agreed by the parties with reference to the prevailing market rates.



REPORT OF THE DIRECTORS

The channel expense will be agreed by the parties separately.

The initial term of the Game Cooperation Framework Agreement shall commence on the Listing Date and expire on December 31, 2023.

Reasons for and benefits of the transactions

Our Group has been engaging G-bits Group for their marketing and promotion services and we expect to continue on engaging G-bits Group for their marketing and promotion services. G-bits Group has a strong marketing platform in the PRC and offers comprehensive marketing and promotion services to mobile game companies. We believe that G-bits Group will be able to enhance popularity and commercial potential of our games extensively and we will tap into the diverse pool of potential game players on G-bits Group's platforms. In addition, we also expect to cooperate with G-bits Group on the provision of our marketing and promotion services to G-bits Group. As our Group continues to develop more games and operate more gaming platforms, we believe through providing marketing and promotion services to third party game developers (including G-bits Group), it will create a new revenue stream for our Group and diversify our revenue base and improve our market position.

Annual caps

The annual caps for the fees payable by our Group to G-bits Group and the fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement for the years ending December 31, 2022 and 2023, respectively, are set out in the table below:

	For the years ending	
	December 31, 2022	2023
	(RMB'000)	(RMB'000)
(a) Marketing and promotion services fees payable by our Group to G-bits Group (<i>Expense-based</i>)	30,000	36,000
(b) Marketing and promotion services fees payable by G-bits Group to our Group (<i>Revenue-based</i>)	4,000	5,000

The total marketing and promotion services fees payable by our Group to G-bits Group (expense-based) and by G-bits Group to our Group (revenue-based) under the Game Cooperation Framework Agreement for the year ended December 31, 2022 were approximately RMB0.6 million and RMB nil, respectively. We did not record any marketing and promotion services fees payable by G-bits Group to our Group during the Reporting Period because we did not provide any marketing and promotion services which render fees payable by G-bits Group to our Group under the Game Cooperation Framework Agreement.



REPORT OF THE DIRECTORS

Confirmation by the Independent Non-executive Directors

The Independent Non-executive Directors have reviewed the above continuing connected transactions and has confirmed that such transactions are:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better terms; and
- (iii) in accordance with the agreements related to such transactions, the terms of which are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation by the Auditors

Based on the work performed, the auditor of the Company confirmed to the Board that nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions:

- (1) have not been approved by the Board;
- (2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (4) have exceeded the annual cap as set by the Company.

Save as disclosed above, the related party transactions referred in Note 35 to the Consolidated Financial Statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, and except the continuing connected transactions that were fully exempted pursuant to Chapter 14A of the Listing Rules, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company during the Reporting Period in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

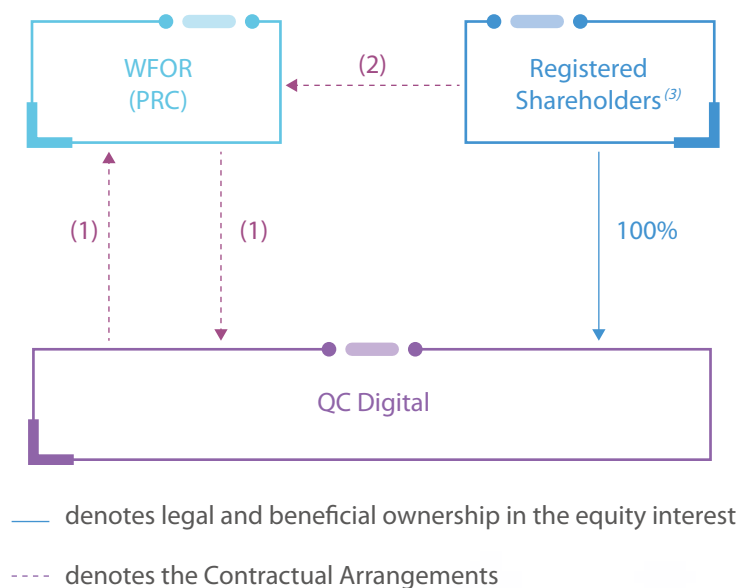


REPORT OF THE DIRECTORS

CONTRACTUAL ARRANGEMENTS

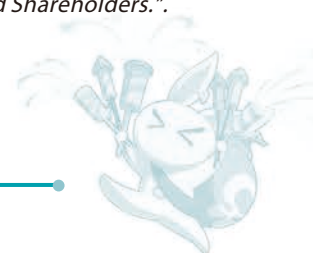
On May 26, 2021, a series of Contractual Arrangements have been entered into by WFOE, QC Digital and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our PRC Consolidated Affiliated Entities. The existing agreements underlying such Contractual Arrangements comprise: (i) Exclusive Business Cooperation Agreement; (ii) Exclusive Option Agreement; (iii) Equity Pledge Agreement; and (iv) Voting Rights Proxy Agreement and Powers of Attorney. The Contractual Arrangements allow the results of operations and assets and liabilities of QC Digital and its subsidiaries to be consolidated into our results of operations and assets and liabilities under IFRS as if they were subsidiaries of our Group.

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



Notes:

- (1) WFOE provides technical consultation and other services in exchange for service fees from QC Digital. See “–Summary of the Contractual Arrangements” below.
- (2) The Registered Shareholders (i) executed an exclusive option agreement in favor of WFOE, for the acquisition of all or part of the equity interests and/or assets in QC Digital; (ii) granted security interests in favor of WFOE, over the entire equity interests in QC Digital held by Registered Shareholders; and (iii) executed the Voting Rights Proxy Agreement and Powers of Attorney in favor of WFOE, for the exercise of all shareholders’ rights in QC Digital. The spouse of each relevant individual shareholders executed an undertaking in favor of WFOE. See “–Summary of the Contractual Arrangements” below.
- (3) Wofan Qihang, G-bits, Xiamen Sealand, Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司), Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司) and Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) and the relevant individual shareholders (including Mr. Yang, Mr. Huang, Mr. Liu, Mr. Zeng, Mr. Wei, Mr. Ye and Mr. Lin) are collectively referred to as “Registered Shareholders.”



REPORT OF THE DIRECTORS

- (4) *In addition to the restricted and/or prohibited business of our Company, QC Digital also directly or indirectly holds investment in certain entities in the PRC (the “Relevant Entities” and each a “**Relevant Entity**”), 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; or (ii) does not currently carry out business operations that are subject to foreign investment prohibition under the Negative List, however, such Relevant Entity 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 QC Digital to WFOE. 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 Entities held by QC Digital to WFOE. For further details of these Relevant Entities, please refer to section headed “Contractual Arrangements” of the Prospectus.*

Summary of the Contractual Arrangements

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

Exclusive Business Cooperation Agreement

Pursuant to an exclusive business cooperation agreement dated May 26, 2021 entered into between WFOE and QC Digital (the “**Exclusive Business Cooperation Agreement**”), QC Digital agreed to engage WFOE as its exclusive provider to provide QC Digital with technical consultation and services, including but not limited to, (i) business operation and management consultation; (ii) technical consultation; (iii) marketing and promotion consultation, and providing solutions for marketing and promotion; (iv) daily management, maintenance and update of the hardware and database; (v) development, maintenance and update of the software and system; (vi) daily maintenance, debugging and troubleshooting of computer network equipment; (vii) rental of equipment; (viii) human resource support and employee training; and (ix) other services permitted under PRC law as required by QC Digital from time to time. In exchange for these services, QC Digital shall pay a service fee, which shall consist of the total consolidated profit of QC Digital in any financial year, after the deduction of operating costs, expenses, taxes and other statutory contributions in the corresponding financial year, which may include any accumulated deficit of QC Digital and all of its consolidated subsidiaries in respect of the preceding financial year(s) (if any). Meanwhile, QC Digital agreed to any adjustment WFOE may make at its sole discretion on the service fee based on the (i) the complexity of the technical support, the technical consultation and other services provided; (ii) the time required for providing services; (iii) the content and commercial value of the services provided; and (iv) the market price of the same type of services. QC Digital has agreed to pay the service fee to a bank account designated by WFOE within five (5) business days after WFOE issues the payment notice. During the term of the Exclusive Business Cooperation Agreement, WFOE enjoys all the economic benefits in relation to our PRC Consolidated Affiliated Entities business operation.

The Exclusive Business Cooperation Agreement shall remain effective unless (i) the entire equity interests held by the Registered Shareholders in QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); (ii) terminated in writing by WFOE thirty days in advance; (iii) when QC Digital ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; or (iv) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the shareholder of QC Digital. QC Digital is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with WFOE.



REPORT OF THE DIRECTORS

Exclusive Option Agreement

Pursuant to an exclusive option agreement dated May 26, 2021, entered into among WFOE, QC Digital and the Registered Shareholders (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 QC Digital and from QC Digital all or any part of the assets of QC Digital 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 equity interests from the Registered Shareholders shall be the nominal price or the lowest price as permitted under the applicable PRC laws. The consideration in relation to purchasing assets from QC Digital 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/entity 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 QC Digital or the entire assets held by QC Digital have been transferred to WFOE or its appointee(s); or (ii) in writing by WFOE thirty days in advance.

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement dated May 26, 2021 entered into between WFOE, QC Digital and the Registered Shareholders (the “**Equity Pledge Agreement**”), the Registered Shareholders agreed to unconditionally and irrevocably pledge all of their respective equity interests in QC Digital 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 QC Digital held by the Registered Shareholders.

The Equity Pledge Agreement came into effect upon execution and shall remain valid until after all the contractual obligations of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully performed and all the secured indebtedness of the Registered Shareholders and QC Digital under the Contractual Arrangements have been fully settled. The Registered Shareholders should complete the registration with the relevant administration for market regulation in accordance with the Equity Pledge Agreement.



REPORT OF THE DIRECTORS

Voting Rights Proxy Agreement and Powers of Attorney

The Registered Shareholders, WFOE and QC Digital entered into the voting rights proxy agreement (the “**Voting Rights Proxy Agreement**”) on May 26, 2021, pursuant to which, each of the Registered Shareholder agreed to enter into a power of attorney respectively (the “**Powers of Attorney**”) through which each of the Registered Shareholders shall agree to irrevocably appointed WFOE or its appointees as their exclusive agents to act on their behalf to exercise all of their respective rights as the shareholder of QC Digital in accordance with applicable laws and the articles of association of QC Digital. These rights include, among other things, the rights (i) to propose, convene and attend shareholders’ meetings of QC Digital, and sign shareholders’ meeting minutes, resolutions and other relevant documents in the capacity of a proxy of the Registered Shareholders; (ii) to exercise the voting rights on behalf of the Registered Shareholder on all the resolutions which shall be approved at shareholders’ meeting, including but not limited to (a) the election and appointment of directors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; (b) the sale, transfer, pledge or disposal of any or all equity interests or assets of QC Digital; (c) the decision on the increase or decrease QC Digital’s registered capital, and merger, division, dissolution or liquidation of QC Digital; and (d) the amendments to the articles of association of QC Digital; (iii) to submit any required document to relevant government authorities; (iv) to sign or submit any required document to any company registry or other authorities; (v) to designate or appoint and remove the legal representative, directors, supervisors and other senior management of QC Digital who should be appointed or removed by the shareholders of QC Digital; and (vi) the right to exercise any other rights of shareholders pursuant to PRC laws and the articles of association of QC Digital.

The Voting Rights Proxy Agreement shall remain effective unless (i) when it is legally permissible for WFOE to hold equity interests directly or indirectly in QC Digital and WFOE or its appointee(s) is registered to be the sole shareholder of QC Digital; or (ii) terminated in writing by WFOE thirty days in advance.

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 QC Digital; (ii) the spouse shall be bound by the Contractual Arrangements (as amended in QC Digital 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; and (iv) in the event that the spouse of the relevant individual shareholders holds the interests in QC Digital, such spouse shall enter into a series of agreements which are similar to the Contractual Arrangements with WFOE and QC Digital as requested by WFOE.



REPORT OF THE DIRECTORS

Reasons for adopting the Contractual Arrangement

Our principal business, being the publication and operation of games through mobile apps and websites, falls within the scope of both (i) internet cultural business, which according to the Negative List foreign investments are prohibited to operate; and (ii) “value-added telecommunication service” under the Telecommunications Regulations (《電信條例》), where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business. In view of the aforementioned PRC regulatory background, 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” 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 finds that our Contractual Arrangements are not in compliance with applicable PRC laws and regulations, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our PRC Consolidated Affiliated Entities.
- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership. QC Digital or its shareholders may fail to perform their obligations under our Contractual Arrangements.
- Any failure by QC Digital or its shareholders to perform their obligations under our Contractual Arrangements with them would have a material adverse effect on our business.
- Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations.
- We may lose the ability to use and enjoy assets held by any of our PRC Consolidated Affiliated Entities that are material to our business operations if it goes bankrupt or becomes subject to a dissolution or liquidation proceeding.
- Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.
- The shareholders of QC Digital may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.



REPORT OF THE DIRECTORS

- If we exercise the option to acquire equity ownership and assets of QC Digital, the ownership or asset transfer may subject us to substantial costs.
- We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.
- PRC regulation of loans to and direct investments in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries and PRC Consolidated Affiliated Entities, or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.
- The Contractual Arrangements may subject us to scrutiny by PRC tax authorities and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

For further details of these risks, please refer to the section headed “Risk Factors—Risks Related to Our Contractual Arrangements” 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) our 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 advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our PRC Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.



REPORT OF THE DIRECTORS

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

- i. the transactions carried out during the year ended December 31, 2022 had been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- ii. no dividends or other distributions had been made by our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- iii. the Contractual Arrangements are on normal commercial terms and are fair and reasonable, and in the interest of our Company and its Shareholders as a whole (so far as our Group is concerned).

Our 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 December 31, 2022 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 our PRC Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

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

Save for the issuance of 6,330,500 ordinary shares on January 12, 2022 pursuant to the partial exercise of the over-allotment option as disclosed in the announcement of the Company dated January 10, 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

MATERIAL LITIGATION

During the Reporting Period, 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.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Stock Exchange on December 16, 2021. The net proceeds received from the Global Offering (taking into account the partial exercise of the over-allotment option and after deducting the underwriting fees and commission and other estimated expenses payable by the Company in connection with the Global Offering) was approximately HK\$925.8 million.



REPORT OF THE DIRECTORS

The table below sets out the planned usage of the net proceeds from the Global Offering and actual usage up to December 31, 2022:

Use of proceeds	Net proceeds from the Global Offering (after taking into account the partial exercise of the over-allotment option) (HK\$ million)	Amount utilized during the Reporting Period (HK\$ million)	Utilized amount up to December 31, 2022 (HK\$ million)	Unutilized amount up to December 31, 2022 (HK\$ million)	Expected timeline for fully utilizing the unutilized amount ⁽¹⁾
For expanding our game portfolio and invest in our game R&D capabilities and related technologies	324.0	95.2	95.2	228.9	By December 2024
For expanding our business in the overseas markets	231.4	178.8	178.8	52.7	By December 2024
For strengthening our game publication and operation capabilities in China's mobile game market and the market recognition of our "QingCi" brand and our IPs	138.9	61.9	61.9	77.0	By December 2024
For pursuing strategic investments in and acquisitions of upstream and downstream companies along the mobile game industry chain	138.9	93.2	93.2	45.7	By December 2024
For working capital and general corporate purposes	92.6	92.6	92.6	-	NA
Total	925.8	521.6	521.6	404.2	

Note:

- (1) The expected timeline for utilization of the unutilized proceeds disclosed above is based on the best estimation from the Board in accordance with latest information as at the date of this annual report.



REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee, comprising all the independent non-executive Directors, has reviewed the results of the Group for the year ended December 31, 2022 together with its auditors, and have discussed with the management the accounting principles and practices adopted by the Group and its internal controls and financial reporting matters.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2022 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.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Group after December 31, 2022 and up to the Latest Practicable Date.

For and on behalf of the Board

Qingci Games Inc.

Liu Siming

Executive Director

Hong Kong, March 28, 2023



Biographies of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. YANG Xu (楊煦), aged 42, is the founder and the president of the Group and was appointed as an executive Director and chairman of our Board on June 19, 2021. He is primarily responsible for the overall strategic planning and research and development of the Group.

Mr. Yang has been deeply involved in the game industry for more than 16 years. Mr. Yang founded our Group in March 2012, he had been the general manager until August 2019, and since then, he has been the president of our Group. Prior to founding the Company, Mr. Yang served as a producer of G-bits Network Technology (Xiamen) Co., Ltd., which is an online game and web game developer in China, during the period from December 2005 to August 2012.

Mr. HUANG Zhiqiang (黃智強), aged 41, is the chief executive officer of the Group and was appointed as an executive Director on March 12, 2021. Mr. Huang is primarily responsible for the management and development of our Group's business.

Mr. Huang served as the chief operating officer when he joined the Group in March 2012. Subsequently, he has been the chief executive officer since September 2019. Before joining our Group, he worked as a project manager of Sichuan Shengpu Information Technology Co., Ltd. from August 2005 to February 2012.

Mr. Huang graduated from the Chengdu University (成都大學) in July 2002 with a bachelor's degree in e-commerce.

Mr. LIU Siming (劉斯銘), aged 43, is the chief financial officer of the Group and was appointed as an executive Director on June 19, 2021. Mr. Liu is mainly responsible for the planning and management of finance and capital market activities of our Group.

Mr. Liu has been the chief financial officer since he joined our Group in February 2021. Before joining our Group, Mr. Liu served in various positions at Jinko Group. From 2018 to February 2021, Mr. Liu was the vice president of Jinko Power Technology Co Ltd. Prior to that, he was the investor relationship director of JinkoSolar Holding Co., Ltd. from December 2011 to October 2018, and responsible for investor relation matters. Mr. Liu also served as the secretary of the board of Jinko Power Technology Co Ltd. between July 2020 and February 2021. Prior to joining JinkoSolar Holding Co., Ltd., Mr. Liu also worked in the financial risk management department of KPMG LLP's Houston office since 2008 and subsequently in the financial advisory service department of the Beijing Branch of Deloitte & Touche Financial Advisory Services Limited.

Mr. Liu received his bachelor's degree in computer science and technology and master's degree in management science and engineering from the Beijing Institute of Technology (北京理工大學) in July 2003 and in March 2006, respectively. He also obtained the master of business administration degree from Baylor University in December 2007.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. ZENG Xiangshuo (曾祥碩), aged 41, is the chief operating officer of the Group and was appointed as an executive Director on June 19, 2021. Mr. Zeng is primarily responsible for the investment, marketing channels and oversea business of our Group.

Mr. Zeng currently serves as the chief operating officer of our Group from August 2019. Previously, he was the deputy manager of our Group from February 2014 to August 2019. Prior to joining our Group, Mr. Zeng worked at Sichuan Hongxin Software Co., Ltd. from June 2011 to February 2014. Mr. Zeng was an account manager of Chengdu Lingrui Zhitong Technology Co., Ltd. from October 2010 to June 2011. He also worked as a sales manager at Sichuan Shengpu Information Technology Co., Ltd. from November 2006 to September 2010.

Before that, Mr. Zeng served in the IT department of Chengdu Yinhe Magnet Co., Ltd. from July 2005 to November 2006.

Independent Non-executive Directors

Mr. ZHANG Longgen (張龍根), aged 59, is our independent non-executive Director since Listing Date. He is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Zhang is currently the chief executive officer of Daqo New Energy Corp., which is listed on the New York Stock Exchange (ticker symbol: DQ). Before joining Daqo New Energy Corp. in January 2018, he worked as the chief financial officer in JinkoSolar Holding Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: JKS) from September 2008 to September 2014. He also worked in Xinyuan Real Estate Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: XIN) as the chief financial officer from August 2006 to August 2008 and director from August 2006 to December 2008.

Mr. Zhang has been an independent director of X Financial (a company listed on the New York Stock Exchange, ticker symbol: XYF) since September 2018. Mr. Zhang had been an independent non-executive director of Zhongjin Technology Services Group Company Limited (formerly known as ZZ Capital International Limited, a company listed on the Stock Exchange, stock code: 8295) from January 2018 to April 2021 and a director of JinkoSolar Holding Co., Ltd. (a company listed on the New York Stock Exchange, ticker symbol: JKS) from May 2014 to December 2020.

Mr. Zhang obtained his master's degrees in professional accounting and business administration from West Texas A&M University in December 1992 and in December 1994, respectively. In addition, Mr. Zhang was qualified as a certified public accountant and was granted such certificate by the State Board of Public Accounting of the State of Texas in the United States in August 1995. He further obtained his membership from the American Institute of Certified Public Accountants in July 2002.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Professor LAM Sing Kwong Simon (林誠光), aged 64, is our independent non-executive Director since Listing Date. He is primarily responsible for supervising and providing independent judgment to our Board.

Professor Lam is the Professor of Management and Strategy at the Faculty of Business and Economics of the University of Hong Kong. He is also director of the Centre of Asian Entrepreneurship and Business Values and Ian Davies Endowed Professor in Ethics. He has published a number of academic papers and case analyzes on the topics of corporate strategy, organization development and operations management. Before joining the University of Hong Kong, Professor Lam had worked as a management consultant and as a regional manager for a bank. He has gained extensive experience in the area of corporate governance, strategy development and corporate finance. Besides, he is also the independent non-executive director of Kwan On Holdings Limited (stock code: 01559.HK), Sinomax Group Ltd. (stock code: 01418.HK), Jacobson Pharma Corporation Limited (stock code: 02633.HK), and Overseas Chinese Town (Asia) Holdings Limited (stock code: 03366.HK).

Professor Lam received a doctorate degree in commerce from the Australian National University in April 1996.

Professor Lam was a director of AS & T Consultants Limited which was incorporated in Hong Kong and was dissolved by means of striking off on March 8, 2002 pursuant to the then section 291(6) of the predecessor Companies Ordinance. Professor Lam confirmed that the said company was solvent and inactive at the time of it being struck off and that its dissolution has not resulted in any liability or obligation imposed against him.

Ms. FANG Weijin, (方煒瑾), aged 39, is our independent non-executive Director since Listing Date. She is mainly responsible for supervising and providing independent judgement to our Board.

Ms. Fang is currently working as senior vice president, chief human resource officer of Fosun Tourism Group (a company listed on the Stock Exchange with stock code: 1992) since joined on November 2020, where she also serves as Fosun global partner and co-chief human resources officer of Fosun Happiness Industry Operation Committee* (复星大快樂產業運營委員會). From April 2017 to October 2020, she has served several positions at Fosun International Limited. Before joining Fosun International Limited, Ms. Fang worked at KPMG China, Shanghai from July 2007 to April 2017 and was a senior manager at the time when she departed from KPMG China.

Ms. Fang obtained her bachelor's degrees in international economics and trade and in business from Shanghai University (上海大學) and from University of Technology Sydney, respectively, in July 2007. Ms. Fang was also qualified as a project management professional by the Project Management Institute in December 2014.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. YANG Xu (楊煦), aged 42, is the founder and the president of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed “– Executive Directors” in this section.

Mr. HUANG Zhiqiang (黃智強), aged 41, is the chief executive officer of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed “– Executive Directors” in this section.

Mr. LIU Siming (劉斯銘), aged 43, is the chief financial officer of the Group and was appointed as a senior management of the Group in February 2021. For further details, please refer to the paragraph headed “– Executive Directors” in this section.

Mr. ZENG Xiangshuo (曾祥碩), aged 41, is the chief operating officer of the Group and was appointed as a senior management of the Group in August 2019. For further details, please refer to the paragraph headed “– Executive Directors” in this section.

Mr. WEI Shumu (魏樹木), aged 42, has been appointed as the chief technology officer of the Group in August 2019. He is primarily responsible for overseeing the current technology and creating the relevant policy of our Group.

Prior to joining the Group, Mr. Wei had served as a program director in G-bits Network Technology (Xiamen) Co., Ltd. from August 2007 to August 2012. Previously, from August 2005 to March 2006, he worked as a developmental engineer in Tencent Technology (Shenzhen) Co., Ltd.

Mr. Wei received his bachelor’s degrees in mathematics and applied mathematics as well as computer science and technology, respectively, from Wuhan University (武漢大學) in June 2004.

Each of our senior management members has confirmed that he or she does not and has not held any other directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately prior to the Latest Practicable Date.

CHANGE IN INFORMATION OF DIRECTORS

Save as disclosed above, as of December 31, 2022, there has been no change to the information of the Directors subject to disclosure under Rule 13.51B(1) of the Listing Rules.



Environmental, Social and Governance Report

ABOUT THE REPORT

Qingci Games Inc. (the “Company”, stock code: 6633) sincerely issues the *Environmental, Social and Governance Report* (hereinafter referred to as “ESG Report”, or the “Report”) to disclose the Group’s strategies, performance, and vision on ESG to stakeholders.

SCOPE OF REPORT

The Report covers the period from January 1, 2022 to December 31, 2022 (referred to as the “reporting period”), in consistency with the financial year period covered by the Group’s annual report.

Unless otherwise specified, the disclosure of environmental and social aspects in the Report covers main operating entities of the Group (collectively referred to as “Qingci”, “the Group” or “We”) in China, namely offices in Xiamen and Chengdu.

REPORTING STANDARDS AND PRINCIPLES

The Report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* (the “ESG Guide”) in Appendix 27 to the Listing Rules of the main board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). It is suggested that the content related to corporate governance in the Report be read together with the corporate governance report contained in the annual report. This Report is prepared in accordance with the following reporting principles required in the ESG Guide:

- “Importance”: Key stakeholders were identified and key ESG topics were determined through stakeholder engagement and materiality assessment in the course of the Report preparation.
- “Quantification”: The Report uses quantitative data to present key performance indicators at the environmental and social aspects, explaining its purpose and impacts.
- “Consistency”: The report adopts a consistent disclosure methodology with the *Environmental, Social and Governance Report 2021*.
- “Balance”: The Report follows the principle of “Balance” and objectively demonstrates the Group’s ESG performance.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DATA SOURCE AND RELIABILITY STATEMENT

The information disclosed in the Report comes from the original data of the actual operation of the Group, annual financial data, relevant internal statistical statements, administrative documents and reports, etc. Unless otherwise specified, all monetary amounts quoted in the Report are shown in Renminbi (“RMB”). In case of any inconsistency with the financial report, the financial report shall prevail. The Group confirms that there are no false statements, misleading statements or major omissions in the Report, and is responsible for the authenticity, accuracy and completeness of its content.

REPORT FORM

The Report is available in traditional Chinese and English. The electronic version of the Report is available on the website of the Stock Exchange (<http://www.hkexnews.hk>) and our website (<https://www.qcplay.com/>).

CONFIRMATION AND APPROVAL

The management team of the Company has confirmed to the Board of Directors that the Group’s risk management and internal monitoring system related to environmental, social and governance (hereinafter referred to as “ESG”) is effective for the year ended December 31, 2022. The Report was approved at the board meeting held on March 28, 2023.

CONTACT US

We encourage all stakeholders to provide opinions and make suggestions on the Group’s ESG report and performance. You are welcomed to contact us in the following ways:

Address: No. 4, Wanghai Road, Software Park Phase II, Xiamen, Fujian, 361008

Email: ir@qcplay.com



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ESG MANAGEMENT

1.1. ESG management

Qingci Games Inc. strictly complies with the legal and regulatory requirements of the countries/regions where we operate, and has established a scientific and efficient governance mechanism with distinct responsibilities. The Company acknowledges and firmly believes in the benefits from diversity of the Board of Directors. The nomination and appointment of board candidates will be based on a range of diverse perspectives, including but not limited to gender, age, industry experience, professional background, educational and cultural background. For details of responsibility scope and corporate governance of the Company's committees, please refer to Corporate Governance section of the Company's Annual Report.

We are deeply aware of the importance of bolstering environment and social benefits for sustainable operation. We have also incorporated ESG-related risks and opportunities into our business strategy to guide our day-to-day operations. Under the Board of Directors, we set up the ESG Supervision Committee, which is composed of the Chief Executive Officer, Chief Operating Officer, Head of Law, Head of Human Resources, Head of Administration and other senior management representatives, to manage ESG affairs in concert, while reporting to the Board of Directors regularly. At the same time, we have formulated the ESG policy, which sets out key ESG objectives and responsibilities.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.2. Stakeholders communication

We attach great importance to the communication with stakeholders. In this regard, we value their opinions and requirements as an important driving force for the continuous improvement of ESG management. We actively understand and respond to the expectations and demands of stakeholders through a variety of channels. We have identified significant stakeholders that interact with the Group's operations, as shown in the table below.

Stakeholders	Expectations and requirements	Engagement methods	Frequency of engagement
Shareholders or investors	<ul style="list-style-type: none"> • Safeguarding shareholders' interests and rights • Compliance operation and management • Information disclosure • Return on investment 	<ul style="list-style-type: none"> • Shareholder's General Meetings • Announcements (annual reports, circulars and announcements) • Website of the Company and the Hong Kong Stock Exchange • Investors' conferences and roadshows 	Multiple times per year
Government or regulatory authorities	<ul style="list-style-type: none"> • Compliant Operations • Taxation in accordance with law • Social contribution 	<ul style="list-style-type: none"> • Visitor reception • Announcements (annual reports, circulars and announcements) • Supervision and inspection 	Multiple times per month



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectations and requirements	Engagement methods	Frequency of engagement
Users	<ul style="list-style-type: none"> User experience Information security and privacy protection 	<ul style="list-style-type: none"> User feedback channel User service agreement The Company's website and social media interactions 	Multiple times per week
Employees	<ul style="list-style-type: none"> Safeguarding employees' interests and rights Health and safety Compensation and benefits Training and development 	<ul style="list-style-type: none"> Internal office system Online and offline training activities Employee satisfaction survey 	Multiple times per month
Suppliers	<ul style="list-style-type: none"> Open, fair and equal procurement Business ethics Mutual benefits and win-win 	<ul style="list-style-type: none"> Public tendering Supplier assessment Field trips Daily communication 	Multiple times per week
Community	<ul style="list-style-type: none"> Community involvement Charitable projects 	<ul style="list-style-type: none"> Gaming platform The Company's website and social networking 	Multiple times per year



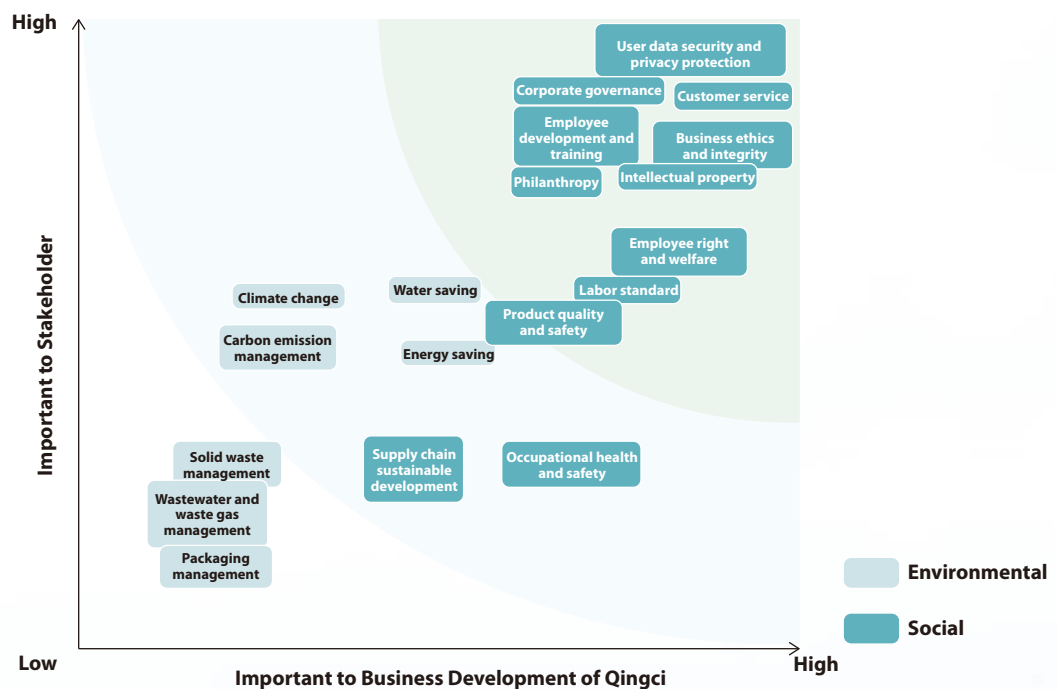
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.3. Materiality assessment

In order to assess the Group's ESG risks and material ESG issues, understand and respond to the expectations of stakeholders regarding the Group's ESG work, we conducted a materiality assessment during the reporting period through the following steps:

- **Identification of issues:** We sorted out a total of 19 ESG issues in accordance with the requirements of *ESG Reporting Guide*, and with reference to ESG issues concerned by capital market and best practices of domestic and overseas peers;
- **Questionnaire:** The Group identified significant internal and external stakeholders and invited them to assess the materiality of each issue through questionnaires, which enabled us to understand their opinions and suggestions;
- **Confirmation of results:** We practice statistics on the questionnaire collected, from which we rank the importance of each issue, considering two dimensions i.e. "Importance to the Company's business" and "Importance to stakeholders", and combining propositions from the Company's management and specialists, the following matrix of significant issues is drawn.

ESG Materiality Assessment Result of Qingci



2. RESPONSIBLE OPERATION

2.1. Product responsibilities

The comprehensive guarantee of product quality is our long-standing development concept. The Group conscientiously abides by relevant laws and regulations, strictly circumscribes the platform content, and strives to protect the legitimate rights and interests of users and consumers.

2.1.1. Healthy games

We comply with the requirements of laws and regulations such as the *Advertising Law of the PRC*, the *Interim Measures for the Administration of Internet Advertising*, and strictly control the marketing information distributed through varied channels to ensure the compliance of publicity, promotion and external advertising.

- ***Protecting minors***

We strictly abide by national laws and regulations and regulatory requirements, including the *Administrative Measures of the PRC on Internet Information Services*, the *Notice of Preventing Minors from Indulging in Online Games by the General Administration of Press and Publication*, and the *Notice of Further Strengthening the Management of Preventing Minors from Indulging in Online Games*. We actively adopt various measures to prevent minors from indulging and has implemented the anti-addiction management.

We have strengthened the requirements for user identity verification and implemented a real-name registration system for online game user accounts. We verify the identity of game players in strict manner, and effectively restrict and manage the gaming behaviour of underage users, including time limits and payment limits for underage users. We have connected all games released in China's mainland to the real-name registration and game anti-addiction system of the General Administration of Press and Publication.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We strictly abide by the anti-addiction requirements of games in China

- The Real Name Registration System requires players to register with valid identity information, and those who do not will be forbidden to log in the game
- The consumption limits for minors are implemented in accordance with relevant regulatory guidelines
- Minors under the age of 8 cannot purchase in games
- The cumulative game-playing time for minors is monitored, calculated and limited: Minors can only log in the games for one and a half hours from 8:00 p.m. to 9:00 p.m. on Fridays, Saturdays, Sundays or on national statutory holidays. Once the time limit is exceeded, a prompt will pop up and force the player to log out

In 2022, we upgraded and improved the minor protection mechanism and the anti-addiction system. With stricter scrutiny procedures established, when a player registers an account, the identity and name of the player will be checked at backstage against those obtained through the interface designated by the authority. Only those who have passed the real-name verification can activate the game. By doing so, underage players are effectively prevented from logging in with adult accounts. At the same time, we have opened customer service channels in the game, official website, company WeChat account, and other channels, so that parents can contact the customer service team more conveniently and quickly to express their requests related to minor protection, and further improve the response process of customer service for minor protection function inquiries, to improve players' understanding of the minor protection function and help parents use the anti-addiction related functions more quickly. In 2022, minors' consumption contributed much less to the total turnover. In the future, we will continue to improve the identification mechanism and customer service feedback process and consider adopting more advanced and sophisticated identification technology after their gradual maturity to further strengthen the management of the real-name system, and reasonably and effectively regulate the behaviour of underage players.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are keen on raising employees' awareness of juvenile protection and take juvenile protection as an important consideration in designing and presenting games. Our staff are instructed to be cautious about the impact of our games on minors, and the R&D personnel are required to design game contents and forms that are physically and mentally favourable for minors, adopt positive dialogues and avoid violence and other harmful contents in games. Moreover, we encourage our staff to incorporate educational and popular science knowledge into games, as well as traditional culture, charity and other positive factors into games to guide minors' healthy growth with games and help them built up positive values.



▲ Positive Energy of The Marvellous Snail ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.1.2. Experience improvement

We attach great importance to players' game experience, actively focus on players' needs, and set up dedicated technical teams to test and adjust the game repeatedly during the R&D and operation stages, to ensure that the game runs smoothly, and pursue the continuous improvement of game quality and playability.

- *Continuously optimising the gaming experience*

The Group attaches great importance to the optimisation of game experience. The management and game distribution and operation teams are closely involved in the whole game production and testing process. Through comprehensive approaches such as collecting player feedback and analysing player behaviour, the Group manages continuous optimisation and version updates covering the entire life cycle of the game.

Development and release stage

Internal development

- Research industry trends, players' demands and rapidly changing preferences, and feedback on existing games;
- Make a demo version of the game, after internal professional testing, the management evaluates and invites external players to try, collect game functions and experience feedback, and further optimise game technical problems;
- The contents of games are extensively modified and optimised based on the game experience, test feedback and performance data at all stages of game development;
- The open beta test (OBT) version is released, with the test server called "the photon server". The update of each new function will be tested in the photon server and the corresponding system is modified based on the test feedback to make sure that there is nothing wrong prior to updating to the official server.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Third party developer

- Since the third-party developers were given the demo version of the game, they assigned a dedicated team to optimise the game and conduct several rounds of testing and evaluation to enhance the quality of the game and improve the player experience.

Operation stage

- Timely detect and repair technical problems and regularly update the game;
- Use data analysis tools to monitor and analyse game performance, player feedback and player behaviour data;
- Continuously develop optimised game versions with new settings, playing methods, contents and functions.

Localisation of overseas market

- Develop local language scripts for game programs;
- Localise the development by introducing dialogues between characters in local language, local art design, user interface and popular culture elements, such as local festivals, characters, art resources, etc.

In 2022, we further improved the quality inspection process, adopting an advanced task management system for the unified management of new function release, function optimisation, and problem solution. In addition, we adopted standardised development processes for task creation, solution submission, solution review, code modification, and task acceptance to strictly control the quality of all aspects of game development. For version optimisation, the development of The Marvellous Snail was advanced on a weekly cycle – the team was required to complete certain tasks every week. Simulation tests and strict acceptance were conducted for the contents to release to strive to provide the best game experience for users.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Customer communication and satisfaction management**

We strictly comply with laws and regulations such as the *Consumer Rights and Interests Protection Law* of the PRC and formulate and implement the *Operation Procedures on Customer Satisfaction Survey*. We fully understand the demands of players, collect their opinions in a timely manner, and guarantee the legitimate rights and interests of consumers.

We provide continuous customer service to our players. Player service representatives provide 24/7 online customer service in multiple languages and aim to respond to player queries and complaints, fix technical issues; provide advice on other game-related issues such as gameplay and account maintenance in a standard process. Players can contact a player service representative through a variety of channels, including online customer service, WeChat, e-mail, telephone and in-game inquiry system. We require our player service representatives to respond to players within a few minutes, and to resolve any special issues within 1–3 days.



We focus on managing and improving the quality of our services to provide our customers with the best possible service profile and service quality. In 2022, the Group handled a cumulative total of 163,712 user feedback (Note: The feedback data is Number of Total Dialogue) and received no major user complaints that caused significant adverse impact on our business. The relative satisfaction of users with the service reception reached 95.85%.



2.2. Information security and privacy protection

2.2.1. Information security management

We strictly abide by the rules and regulations regarding privacy protection and information security of the countries/regions where we operate, such as *Cybersecurity Law of the PRC*, the *Information Security and Access Management Policy*, etc. Meanwhile, we formulate internal *Information Security Management Policy* to enhance the protection of information safety and user privacy, covering security policy system, security management system, security technology system, security risk assessment, and security training.

In order to solidify the information security infrastructure, we have established the Information Security Leading Group as the highest regulatory organ for the Group's information security management to be responsible for reviewing and formulating the Group's development strategy, planning, policy and management system for information security. We have also set up an office under the Leading Group to take charge of day-to-day security management.

We have formulated internal management policies such as the *Regulations on the Information Security for Internal Personnel*. We have also established security and protection measures in varied segments such as data collection, storage, display, processing, use and destruction from the perspective of the life cycle of data. We adopt different control measures based on the level of information sensitivity, including but not limited to access control, SSL encrypted transmission, and sensitive information desensitisation display, etc. We designate special personnel in charge of data management and protection and conduct regular internal inspection on data security. Our database is accessed through internal network, and external links will be blocked to ensure data is only used and transmitted through internal network to avoid data leakage. We have also strictly managed employees who may be exposed to user information and established an approval mechanism for significant operations such as data access, desensitisation and decryption. We attach great importance to data backup and establish comprehensive systems and process specifications for backup strategy principles, backup process, and backup media and computer room management. We make a full backup of the data once a day and an incremental backup on a regular basis to avoid data loss.

We encrypt the player's personal data stored on cloud servers provided by third-party suppliers, set up cloud and external firewalls for games, and conduct regular security testing. In addition, we require business partners (e.g., third-party payment channels) to protect the confidentiality of data and not to damage, hide or allow unauthorised access to data, and we only share player behaviour data of imported licensed games with third-party game developers.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We attach importance to enhancing security awareness and competence of employees, thereby formulating the *Management Measures for Personnel Safety Awareness Education and Positional Skills Training*. We organise security education and training on a quarterly basis, including information security basics and positional operation procedures. The Group's legal team is responsible for providing training and regulatory updates to directors, senior management and other employees. To strengthen emergency response to security incidents, we have formulated the *Emergency Exercise Plan* and organised information security incident emergency drills for various departments throughout the Company.

2.2.2. Privacy protection

Privacy protection for players and users has always been the core and initial concern of our work. We strictly abide by the laws and regulations such as the *Data Security Law of the PRC* and the *Personal Information Protection Law of the PRC* and have formulated the *Privacy Policy* and the *User Agreement of Qingci Games*, which specifies the scope and rules of collection, disclosure, and protection measures toward users' personal information, and enable users to access, correct and delete personal information, so as to protect the privacy of users from infringement.

Privacy protection

Informed consent

- We fully notify players on how we collect and use player data: We require players to read the data privacy policy applicable to their respective regions and complete the consent form before registering and playing the game

Security guarantee

- We customise access permissions based on employee qualifications and department functions, and only authorised employees have access to player data within a limited period of time
- We have entered into confidentiality agreement with both partners and employees, and if either side or both fails to fulfil the information protection obligation, we will terminate the partnership or employment and reserve all rights to take legal actions in extreme cases



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Privacy protection

Data protection

- We encrypt player data stored in the system and set up cloud and external firewalls for games
- De-identification of player behaviour data (e.g. records of playing games and purchasing virtual props in games) is used prior to internal analysis
- We make algorithmic encryption and ciphertext storage for user passwords
- We limit the number of incorrectly typed passwords and retry count to prevent passwords from being decrypted
- Reversible ciphertext is used to encrypt ID card information, and the ID card data is split for storage

2.3. Protection of intellectual property rights

We put in place policies that strictly abide by the *Copyright Law of the PRC*, the *Trademark Law of the PRC*, the *Patent Law of the PRC*, and the *Measures for the Administration of Software Products of the PRC* and other laws and regulations. We establish the Group's intellectual property management paradigm and continue to standardise and deepen our intellectual property protection efforts.

The Group's Legal Department, which is the responsible entity for intellectual property management, takes charge of managing intellectual property rights involved in business activities with internal and external related parties. For this reason, the Legal Department has established a corresponding management scheme and workflow for in-house R&D IP promotion, external IP synergy, trademark, patent and copyright application, etc.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In-house R&D IP

We safeguard the confidentiality of commercial secrecy through measures such as signing the *Confidentiality and Intellectual Property Agreement* and relevant technical means in the R&D process;

In the phase of finalising, preparing and publicising of projects, the Legal Department conducts time stamp and related intellectual property applications as needed in accordance with the statutory standard process.



External IP

When we interact with external existing IP, we will sign an agreement to add new game characters, new activities, publicity pictures and animations.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

While improving our own intellectual property protection system, we also leverage the value and influence of our own intellectual property rights to pursue high-quality intellectual property results in the development of high-quality games. We are also concerned about the creation of copyright value in the process of distribution and promotion, and take various measures to encourage our staff to create IP. Our R&D and innovation capabilities and achievements have been recognised by many parties.

Award Recipient	Award	Issuing Institution
Qingci Game	High-tech Enterprise Certificate	Xiamen Science and Technology Bureau, Xiamen Finance Bureau, Xiamen Tax Service of State Taxation Administration and Fujian Xiamen Local Taxation Bureau
Qingci Game	2021 Xiamen New Economy Leading Enterprise	Xiamen Municipal Development and Reform Commission, Bureau of Industry and Information Technology of Xiamen and Xiamen Municipal Bureau of Commerce
Qingci Game	Enterprises of the Year on the 9th (2021) Xiamen Cultural Industry Annual List	Xiamen Cultural Reform and Development Leading Group Office/Xiamen Daily
Qingci Game	2022 Xiamen Key Software and Information Technology Service Enterprise	Bureau of Industry and Information Technology of Xiamen/Xiamen Big Data Administration Bureau
Qingci Game	2022 Future "Unicorn" Innovative Enterprise in Fujian Province's Digital Economy	Digital Fujian Province Construction Leading Group Office of Fujian Province
Qingci Game	2022 "Gazelle" Innovative Enterprise in Fujian Province's Digital Economy	Digital Fujian Province Construction Leading Group Office of Fujian Province
Qingci Game	2022 Xiamen Key Industry Leading Enterprise	Xiamen Private Economy Work Leading Group Office



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Award Recipient	Award	Issuing Institution
Qingci Game	2022 New Trade Business Type List: Digital Trade Culture Overseas Brand TOP20	Service Trade Innovation Development Guidance Fund
Qingci Game	Guruclub Greater China Best Listed Company Awards 2022 – Outstanding IR Team of the Year	Guruclub
Qingci Game	<i>Best Small and Medium-sized Market Value Companies at the Seventh Listed Companies Selection of Zhitong Finance and Economics</i>	Zhitong Finance and Economics
Qingci Game	<i>Best IR Team Award at the Seventh Listed Companies Selection of Zhitong Finance and Economics</i>	Zhitong Finance and Economics
Qingci Game	List of Top 100 Potential Listed Companies in 2022	Snowball
Qingci Game	“White Horse Award” for 2022 Chinese Game Listed Company	Gamma Data
Qingci Game	Top 25 Competitive Chinese Companies in Global Mobile Game Market in 2022	Gamma Data
Qingci Game	2022 EDGE AWARDS Global Innovation Awards and Potential Value Enterprise of the Year	TMTPOST
Qingci Game	Yingfeng Award “2021 Advertising Realisation”	top on



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Award Recipient	Award	Issuing Institution
Qingci Game	2022 Golden Sail Award: Outstanding Overseas Brand of the Year	2022 Global Conference on Products and Growth
Qingci Game	2022 Top 50 Enterprises in Fujian Province in terms of Comprehensive Internet Strength	Internet Society of Fujian
The Marvelous Snail	Nomination for "Outstanding Game Art Design" in the Top 10 Games of 2022	China Audio-video and Digital Publishing Association/ Gaming Publishing Committee of the China Audio-video and Digital Publishing Association
The Marvelous Snail	The Second China Game Innovation Competition: Nomination for Best Innovative Design Award	China Game Industry Research Institute/China Game Innovation Competition Selection Office
The Marvelous Snail	GTA 2022 Best Overseas Game: The Marvelous Snail	Game Teahouse
The Marvelous Snail	GTA 2022 Best Cultural Transmission Game: The Marvelous Snail	Game Teahouse
CFO Award	Liu Siming, 2020-2022 CFO TOP100 of Chinese Companies Listed in U.S. and Hong Kong Stock Markets	Tiger Trade
CFO Award	Liu Siming, WISE2022 Most Potential CFO TOP36	Breakthrough 2023 China Capital Market Financial Summit (破局2023中國資本市場財經峰會)

In 2022, we will conduct further research on the intellectual property applications of overseas products during the research and development period, and apply and certify the appearance patents involved in the surrounding goods. As of December 31, 2022, we owned a total of 102 trademarks, 90 software copyrights, 17 art copyrights, 7 other copyrights and 15 appearance patents.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

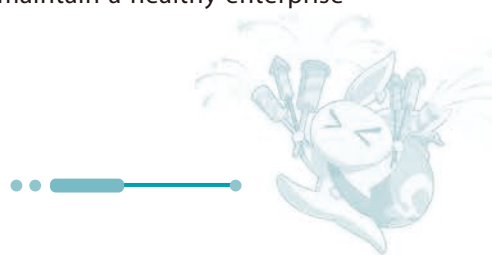
We attach importance to management and protection of intellectual property and have always upheld a zero-tolerance attitude towards infringement. For contents and documents concerned with intellectual property, we further strengthened document management measures, making sure none of them are unveiled externally unless necessary and watermark is added when they are provided externally. In view of the risk of infringement, we work closely with the external rights protection monitoring professional team to actively monitor the infringement. For infringing acts, we collect evidence in our best effort, customise targeted plans for safeguarding rights, and stop the infringement in time by means of investigation and collection of evidence, negotiation and settlement, sending lawyer's letter, and litigation, in an effort to achieve efficient and accurate protection of rights, and, when necessary, report to the public security organs to file a case, severely crack down on all violations and abuses and protect the rights and interests of the Company. As of December 31, 2022, a total of 2,820 infringement cases were settled regarding cracked version, pirated software and plug-in expansion.

2.4. Business ethics

Business ethics compliance is always our work priority. We strictly comply with laws and regulations such as the *Anti-Monopoly Law of the PRC*, the *Anti-Unfair Competition Law of the PRC* and the *Interim Provisions on the Prohibition of Commercial Bribery*, and have established internal management measures such as the *Anti-Fraud Policy of Qingci Games* and the *Procurement Policy of Qingci Games*, which clearly stipulate fraudulent acts, reporting requirements and the reporting process. We also emphasise the requirements of "anti-bribery" and "prevention of conflict of interest" in the *Employee Handbook*, which prohibits employees or anyone acting on behalf of the Group from engaging in corrupt practices such as bribery or other misconduct of the same nature through any form. We have established the *Internal Audit Policy*, in which the Internal Audit Department regularly checks the implementation of the provisions of various anti-fraud and other systems, and promptly informs, handles and optimises them to prevent any corruption within the Group.

We lay emphasis on keeping the reporting channels smooth and the related information confidential. In accordance with the *Anti-Fraud Policy of Qingci Games*, the Group regulates, encourages and supports employees and social parties that have direct or indirect economic relations with the Group to report any actual or suspected fraud cases of the Group and its personnel. The Group will strictly protect the safety of informants and ensure that employees or external personnel are not subject to unfair treatment such as dismissal, degradation, suspension, intimidation, harassment, or any other form of retaliation due to reporting through legal channels. We firmly maintain the confidentiality of the information reported. Employees can report anonymously any suspected corruption to the legal team or communicate directly with senior and middle management. In 2022, the Group did not receive any reports on ethical issues.

We require employees to comply with the *Employee Handbook* and the Code of Business Conduct and Ethics, which set out internal rules and guidelines on best business practices, professional ethics, fraud prevention mechanisms, negligence and corruption. We also provide regular in-service compliance training to management and employees to maintain a healthy enterprise culture.



2.5. Supply chain management

Based on the concept of whole value chain management, we integrate procurement and supplier management into risk identification and prevention, standardise the management of procurement process, and propose requirements for the suppliers' business ethics and sustainable development performance. Our suppliers include third-party distribution platform suppliers, payment channel suppliers, game developers from which we introduce our own licenced games, other related game service providers, third-party advertising and marketing service providers, server suppliers and equipment suppliers.

We have formulated the *Procurement Management Policy and Work Processes of Qingci Games*, which establishes a comprehensive standardised process from procurement planning, purchase review, purchase application, finding supplier, supplier selection, purchase negotiation, delivery acceptance, and surplus goods in warehouse, to fully safeguard the scientificity and effectiveness of procurement management. In selecting and hiring suppliers, we evaluate a number of aspects such as business status, business capability, quotation management level and quality, and select suppliers with good social and environmental performance; in addition, we pay special attention to the performance of suppliers in terms of business ethics and include them in the inspection of suppliers. We will inquire into public information of the suppliers to check whether they have adverse situations such as litigation or employment disputes, and attach importance to the originality and legality of the delivery of works for content providers to avoid disputes. We evaluate our suppliers' cooperation and deliverables annually, and if we are unsatisfied with the results, we will communicate with them to correct and improve them, and monitor their progress.

As of the end of the reporting period, we had 984 domestic suppliers and 183 overseas suppliers.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. EMPLOYEE RIGHTS

3.1. Employment of talents

The Group is in strict compliance with relevant laws and regulations, including but not limited to the *Labour Law of the PRC*, the *Labour Contract Law of the PRC*, and has correspondingly compiled the *Employee Handbook* to protect the interests of employees effectively.

- **Recruitment and dismissal**

The Group strictly regulates recruitment and dismissal and other relevant procedures. Each employee is required to sign a labour contract when employed, which clearly defines the rights, responsibilities and obligations of both the employee and the employer (including salaries, working hours, benefits and holidays). All employees have the right to terminate their employment with the Group. The establishment, modification, dissolution and termination of employment contracts strictly comply with relevant laws and regulations. The Group has explicitly established conditions and procedures of dismissal to ensure that employees are free of wrongful dismissal, protecting the interests of employees effectively.

- **Working hours and holidays**

We strictly abide by the provisions of the *Labour Law of the PRC* and the *Labour Contract Law of the PRC*, and implement the standard working hour system and the comprehensive working hour system to guarantee the rest time of employees. We focus on the long-term growth of both our employees and the Group, encourage employees to allocate their time in a reasonable manner and to spend their time for self-development both in knowledge and practical abilities. Employees must fill in the overtime application form and obtain the approval of their supervisor to work overtime. Employees of the Group can enjoy national statutory holidays and statutory annual leave, and can apply for personal leave, sick leave, wedding leave, maternity leave, bereavement leave, etc., and such holidays and leave can be extended as appropriate to enhance their happiness.

- **Equality, diversity and anti-discrimination**

The Group is committed to establishing an equal and diversified workplace. We provide equal opportunities for everyone in terms of recruitment, employment, training, promotion, remuneration and benefits, and firmly eliminate discrimination on the basis of gender, race, ethnicity, colour, age, nationality, religious belief, physical disability, marital status or other legally protected issues; and adopt a "zero tolerance" attitude towards any forms of harassment, abuse and coercion in the workplace and any external work-related environment. As a gaming company, we are committed to breaking the industry's bias and attach importance to the introduction and training of female talents. We have recruited local employees for overseas office to facilitate employee diversity.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Prohibition of child labour and forced labour**

We comply with the *Labour Law of the PRC*, the *Provisions on the Prohibition of Child Labour* and other laws and regulations, requiring candidates to provide their identification documents when they join the Group to ensure that underage candidates will not be employed. All employees of the Group comply with the minimum working age requirements stipulated in national laws and regulations. Meanwhile, we respect employees' working willingness and prohibit forced labour.

- **Talent distribution**

As of the end of the reporting period, the Group had 606 full-time employees. The number and turnover rate of employees by gender, age, employment type and geographical area are as follows:

	Number of employees	Employee turnover rate ¹
Employee profile		
Total employees	606	35%
By gender		
Male	404	28%
Female	202	48%
By age		
Under 30	433	43%
Above 30	173	14%
By employment type		
Full time	606	/
Part time	0	/
By region		
China (Mainland China, Hong Kong, Macau and Taiwan region)	591	36%
Overseas	15	36%

¹ Turnover rate of each category = number of employees leaving in this category during the reporting period/total number of employees in this category at the end of the reporting period * 100%



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.2. Talent development

- **Promotion system**

The Group has formulated corresponding job ranking standards and corresponding remuneration standards according to the professional attributes and industry conditions of different departments, and uniformly adjusts the ranks of employees who meet the promotion conditions every year. Meanwhile, to stimulate employee performance, employees can be promoted from time to time based on their normal performance and completion level, as determined by the personnel department and department heads.

- **Employee training**

We actively focus on the self-development of our employees and provide training and development opportunities for all staff to help them realize their maximum potential at work.

New employee training

We organise training courses for new employees in a regular manner to help them understand company's relevant policies, answer questions and doubts for new employees and help them fit into the office atmosphere as soon as possible. The training covers company history and industry introduction, system training and interactive games. At the end of the training, new employees are invited to fill in the training feedback, which helps the Company better organise the new employee training courses. Besides, we have prepared a comprehensive and detailed guidance manual for new employees, which covers dining, meeting room, shuttle bus, medication collection and other practical information to help them fit in.



▲ Onboarding training ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the average training hours of the Group's employees are 3.57 hours. The percentage of trained employees and the average training hours by gender and function are as follows:

	Proportion of employees trained (%)	Average training hours of employees (hours)
By gender		
Male	50%	0.59
Female	50%	6.60
By function		
R&D	42%	0.50
Operation	49%	6.77
General and Admin	9%	0.61

3.3. Care for employees

- **Remuneration and benefits**

We have established a fair and reasonable remuneration system with competitiveness in the market and determined the salary increase range based on individual performance to ensure that employees receive matching salaries. Employee remuneration is composed of basic salary, post allowance, performance bonus and year-end bonus. We also help employees to pay social security benefits such as pension, medical, maternity, work injury, unemployment insurance and housing fund. We evaluate the performance of employees on a regular basis and increase salary for outstanding employees based on the Group's operating status, labour market status and other factors.

- **Employee communication**

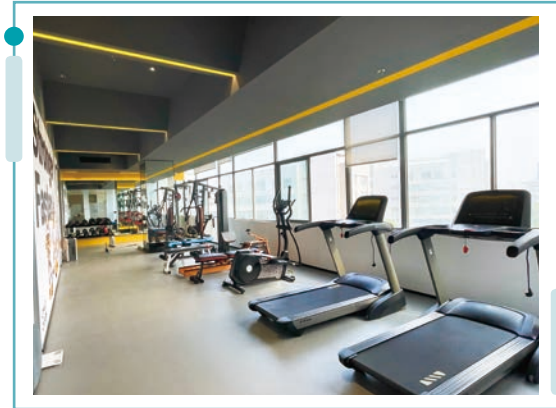
We have established comprehensive communication mechanism, complaint and report mechanism, as well as satisfaction survey and feedback mechanism, with the commitment to improving staff engagement and enhancing their sense of belonging. For the new employees, we will ask for their feedback both one month and three months after their entry into the company, offer them psychological care, and obtain their satisfaction evaluation of the company and their position. In addition, we provide employees who work overtime on Saturdays with free overtime meals, conduct weekly satisfaction surveys on overtime meals to get their feedback in time, and make adjustments through survey data and employee suggestions, in an effort to improve employee satisfaction and faith in the Company.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Optimisation of office environment**

In 2022, we upgraded and optimised the office environment, providing employees with free gymnasium, massage chairs, ping-pong tables, game consoles and other facilities, as well as coffee and tea bags in the pantry, bringing a sense of order and comfort to employees in a good office environment, and helping employees relieve work pressure.



▲ Office optimisation ▲

- **Welfare activities**

Every year, we organise a variety of activities or prepare welfare gifts depending on traditional festivals, important international festivals, or commemorative events of the Company to express the Company's care and concern for our employees and sincere wishes.

Celebration of festivals

We prepared annual benefits and bought gift boxes for New Year, Dragon Boat Festival and Mid-Autumn Festival for our employees, and selected gifts according to the Company's distinctive design. On the Mid-Autumn Festival in 2022, we held a Mid-Autumn moon cake activity in our offices to bring our employees a heart-warming holiday experience.



▲ Mid-Autumn Festival activities ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Game party

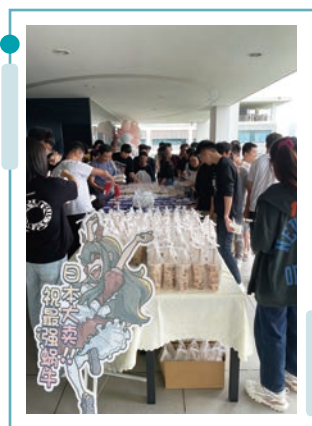
To enrich the cultural life of employees, relax their mood, and enhance team cohesion, we held the first game party within the Company (department competition on Nintendo Switch) in 2022, and the winning department received exquisite gift packages from the Company. Holding game activities enhances the relationship and mutual trust between the Company and employees, creates a positive working atmosphere, and effectively improves employee morale and cohesion.



▲ Department competition on Nintendo Switch ▲

Celebration for the launch of games

We arrange afternoon tea break benefits for our employees to celebrate the launch of the game and show our appreciation to them for their hard work.



▲ Afternoon tea break ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Birthday benefits

We care for the growth of employees, hold birthday parties for employees every month, and choose appropriate birthday gifts, which effectively narrows the gap between employees, creates a relaxed working atmosphere, and enhances employees' sense of belonging.



▲ Birthday party ▲

3.4. Health and safety

We comply with the *Production Safety Law of the PRC* and *Fire Protection Law of the PRC*, and other laws and regulations relating to occupational health and safety and fire safety in the workplace. We have equipped fire alarm systems and automatic fire extinguishing systems in office areas. The Central Control/Fire Control Office has 24-hour staff on duty. Security personnel inspect the fire service facilities every month. Security inspectors on 24-hour duty conduct a comprehensive safety inspection of office areas and report the abnormalities for disposal in a timely manner. We carry out fire drills and fire knowledge training activities on a regular basis every year, so that employees can get fire safety knowledge and self-rescue and escape skills through fire knowledge explanation, case analysis, evacuation drills, fire-fighting drills and improve self-protection awareness.

During the reporting period, the Group recorded no work-related injury, and the number of lost working days by employees due to work injury was nil.



▲ Fire drills and training activities ▲

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We deeply implement the “Care for Employees” and “Heart-warming” projects and take caring for employees’ daily lives as essential work content. We also have institutionalised and normalised the “Care for employees” project so that our employees can always feel the care and warmth of the Company. In addition to the basic social insurance and housing fund, we provide free health examinations to employees on a regular basis, so that they can be aware of underlying diseases and seek medical treatment in time. We also visit employees who are sick and hospitalized. We are concerned about the mental health of our employees, offering free in-person consultation services. With some new offices available this year and given the pollution caused by the renovation, pregnant employees may choose whether to move to the new offices or stay put before childbirth.

Since the outbreak of COVID-19, we have closely followed the pandemic prevention and control policies, paid constant attention to the epidemic situation and promptly provided our employees with medical supplies such as medicines and masks. In addition, we have also organised nucleic acid testing on a regular basis and strictly implemented the rules on information registration and temperature measurement of visitors to ensure employees’ health.



▲ Pandemic prevention measures ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

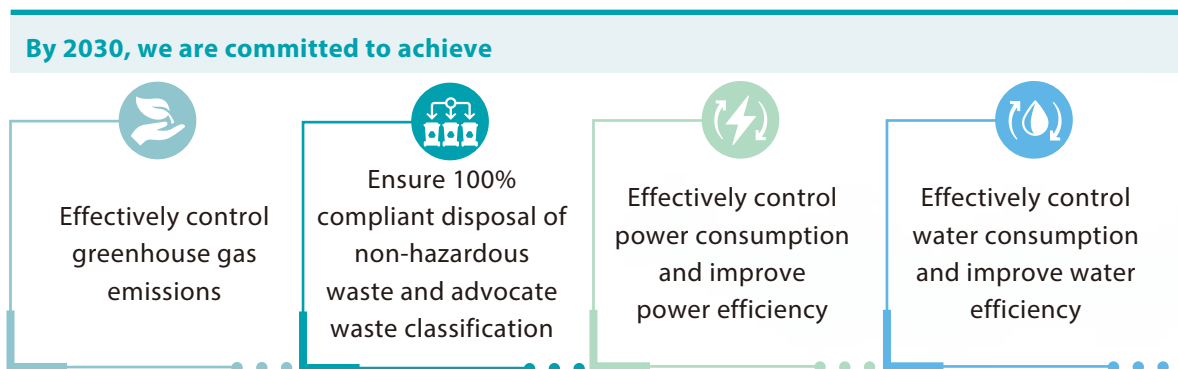
4. GREEN OPERATION

We strictly abide by laws and regulations such as the *Environmental Protection Law of the PRC*, actively respond to the national call for energy conservation and emission reduction, adhere to the green development concept and low-carbon strategy, and strive to build an eco-friendly enterprise, demonstrating our commitment to low-carbon operations through practical actions.

Based on the nature of our business, our impact on the environment mainly includes carbon emissions from energy consumption in the office areas, and small amounts of office and domestic waste and sewage produced. We are not involved in any use of packaging materials for finished products or non-renewable energy, forest resources, and do not have any significant impacts on biodiversity. Therefore, we do not disclose the relevant content of KPI A2.5 packaging materials and A3 Environment and Natural Resources in *ESG Guide* in the Report.

We outsource third-party manufacturers and logistics service providers to carry out certain offline business, such as manufacturing and delivering game-related goods. We promote green office practices, standardize waste management, and plan to strengthen the environmental responsibility audits and empowerment of suppliers (e.g. data suppliers, peripheral product manufacturers) in the future.

In order to clearly evaluate our progress, we have formulated the following environmental goals with 2021 as the base year in consideration of the Group's development strategy and domestic and foreign policy formulation, and will promote the achievement of these goals through comprehensive environmental management.



4.1. Energy conservation and emission reduction

4.1.1. Green office

The Group’s daily operations aim to conserve energy. We promote green office practices and actively disseminate the concept of sustainable development among employees. We encourage the implementation of daily energy-saving measures, foster an environment of energy conservation, and enhance employees’ awareness of resource conservation. We actively respond to the call for green office practices to support energy conservation and emission reduction efforts.

Energy saving measures in office areas

Employees are required to turn off the computer, air conditioning and lights before leaving the office

Special personnel are arranged to inspect the waste of resources irregularly, for example, whether electrical power such as electronic equipment, lights and air conditioning are turned off or not

Air conditioning is set at 26 degrees or above in summer

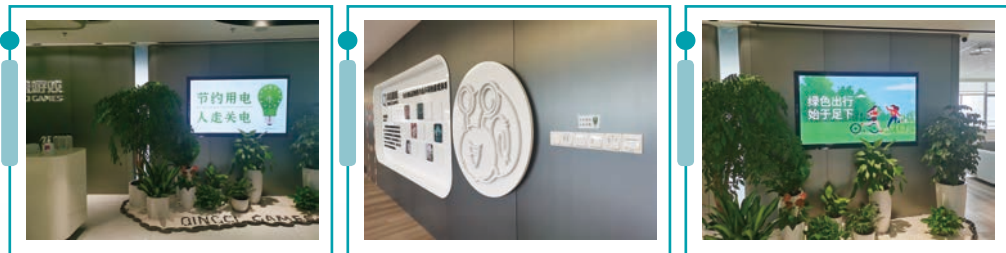
Energy conservation products for LED lights are preferred

New energy shuttle buses are used in employees transportation

Energy conservation publicity is conducted regularly to encourage electricity saving and low-carbon transportation

Reminders such as “Saving Power” are post up to the air conditioning and light switches

Slogans such as “Less elevators, more climbing” are post up next to the elevator



▲ Energy conservation publicity ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We regularly evaluate our energy consumption levels, with energy use and greenhouse gas emissions primarily stemming from the purchased electricity and automotive fuel used in our Xiamen and Chengdu office operations. During the reporting period, the Group's energy consumption and greenhouse gas emissions are as follows:

Energy use	2022
Gasoline (MWh)	74.96
Total direct energy consumption (MWh)	74.96
Purchased electricity (MWh)	715.66
Total indirect energy consumption (MWh)	715.66
Total energy consumption (MWh)	790.62
Energy consumption intensity (MWh/person)	1.48

Note: Energy consumption is the direct energy consumption caused by the use of automobile fuel and the indirect energy consumption caused by purchased electricity, which is presented in megawatt hours (thousands of KWH). The calculation and conversion factor are based on default value of fossil fuel in the Guide of Accounting and Report of Greenhouse Gas Emissions for Public Construction Operation Enterprises (Trial Version) released by the National Development and Reform Commission (NDRC).

Greenhouse gas emissions	2022
Scope 1: Direct greenhouse gas emissions (tonnes)	18.33
Scope 2: Indirect greenhouse gas emissions (tonnes)	472.38
Total greenhouse gas emissions (tonnes)	490.71
Greenhouse gas emission intensity (tonnes/person)	0.91721

Note:

- GHG emissions are mainly direct GHG emissions resulting from the use of motor fuels during operations (Scope 1) and indirect GHG emissions from purchased electricity (Scope 2). GHG emissions are presented in carbon dioxide equivalents. GHG emissions are calculated with reference to the Guide of Accounting and Report of Greenhouse Gas Emissions for Public Construction Operation Enterprises (Trial Version) released by the NDRC and the Average CO₂ Emission Factors for Regional Power Grids in China in 2011 and 2012.*



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.1.2. Response to climate change

The Group continues to focus on the impacts of climate change tendency and changes in domestic and foreign laws and regulations on our business operations. We actively identify climate change risks and relevant opportunities, and formulate countermeasures for the identified risks. In case of temperature change in the city, we remind employees of temperature changes on a large screen, in order to reduce the probability of employees getting sick due to sudden drops or rises in temperature.



▲ Risk response reminders ▲

Risk categories	Potential impact	Risk response
Entity risks	<ul style="list-style-type: none"> Headquartered in Xiamen, Fujian Province, the Group is vulnerable to typhoons, rainstorms and high temperatures in summer. Frequent extreme weather events caused by global warming will potentially affect employees' commuting safety, physical security of owned assets and leased servers, power load for commercial office use, power and water supply stability, and business continuity As access to game by our major users rely on the completeness of the Internet infrastructures at various locations, the potential damage to the Internet infrastructures caused by extreme weather increases business instability 	<ul style="list-style-type: none"> Establish a disaster backup and recovery system for office buildings and self-owned/ leased servers; formulate the <i>Information Security Incident Contingency Plan</i> and organize emergency drills, stipulating corresponding responsibilities, early warning procedures, and countermeasures Back up key data and purchase cloud services Purchase power generators for contingencies Continuously reduce the electricity and water consumption for office operation, and improve employees' awareness of energy conservation, and implement the green office project



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

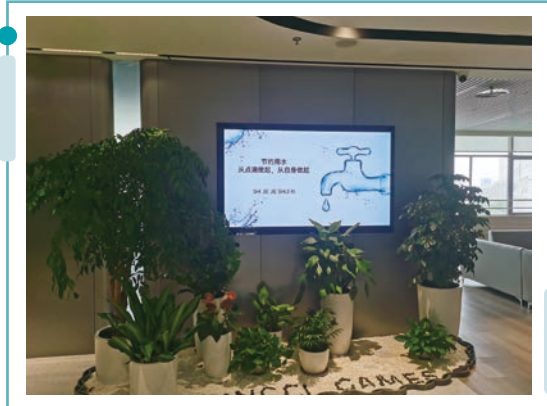
Risk categories	Potential impact	Risk response
Transition risks	<ul style="list-style-type: none"> • With the introduction of a series of policies to achieve peak carbon dioxide emissions and carbon neutrality in China, reporting obligations on emissions and emission ranges are more stringent, greenhouse gas emission costs increase, and regulation of the Group's green operations is strengthened • Increasing concerns about the Group's green operation from stakeholders, including users and investors 	<ul style="list-style-type: none"> • Improve continuously in the management of energy use and calculate the carbon emissions accurately • Increase the Group's share of renewable energy use, such as purchase of green power • Explore the green properties of suppliers and empower suppliers with awareness and capability of green production • Communicate and publicise actively with the outside world, join relevant industry associations to promote industrial cooperation and enhance the enterprise reputation



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.2. Water resource management

We value the use of natural resources and carry out water conservation activities to reduce water waste. We regularly publicise the importance of saving water and post slogans of water conservation in public areas such as the restrooms and tea rooms to encourage employees to develop water-saving habits. The property team regularly inspects the equipment for water dripping and timely maintains to prevent water wastage.



▲ Water-saving signboard ▲

The Group's water usage is entirely supplied by municipal sources and does not involve any issues related to sourcing water. In 2022, the Group's water consumption is as follows:

Water consumption	2022
Total water consumption (tonnes)	11,909.68
Water consumption intensity (tonnes/person)	22.26



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.3. Emissions management

We reduce waste emissions through various daily measures that promote a green lifestyle. We actively respond to the national call on “practising strict economy and combating waste” and carry out the “Clean Plate Campaign” to reduce kitchen waste. In addition, we advocate paperless office and paper reutilisation to reduce the use of office consumables.



▲ Saving paper ▲

We implement the waste classification system in office areas, and place the four types of “dry waste”, “wet waste”, “recyclable waste” and “hazardous waste” bins. The domestic garbage is centrally classified and managed, and the cleaning staff of the property team are assigned to the designated drop-off points in the park for disposal.

In view of the high wear and tear of electronic equipment, the Group hands over all end-of-life electronic equipment and some equipment with secondary use value to suppliers with recycling qualifications for disposal in the daily operation and office activities, so as to achieve recycling of resources while reducing the emission of carbon dioxide and other pollutants in the waste disposal process.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We discharge only domestic wastewater, which is treated in accordance with the *Law on the Prevention and Control of Water Pollution of the PRC* through sewage pipes to treatment plants in the corresponding areas. The main waste generated is domestic garbage from office premises. Our emissions generated in 2022 are as follows:

Emission category	2022
Volume of non-hazardous waste (tonnes)	130.54
Intensity of non-hazardous waste (tonne/person)	0.2440
Volume of wastewater (tonnes)	9,527.74

Notes:

1. *The hazardous waste generated by the Group includes a small amount of toner cartridges and waste ink cartridges, which are collected and recycled by qualified recyclers and have a relatively negligible impact on the environment. Therefore, KPI A1.3 (the total amount and intensity of hazardous waste generated) is not disclosed in the ESG report.*
2. *Due to the nature of our operations, the Group does not generate any exhaust air emissions; all wastewater generated is domestic wastewater, which is all discharged into the municipal pipe network.*

5. PUBLIC WELFARE

Adhering to our corporate responsibility philosophy of “gratitude for the source of benefit and reward for the community”, we have continuously focused on and assisted social welfare programs in society and have insisted on the social responsibility that enterprises should fulfil. We plan and participate in various online and offline charity activities, which cover important social issues in China, including care for children, conservation of nature, care for village schools and assistance to people’s livelihood.

In 2022, we carried out public welfare activities through games and charitable donations. We offered theme activities and public welfare gift packages in the game and donated the profit hereof to the relevant foundation projects. The game was used as a platform of combining charity with recreation in an innovative way, where game players can participate in public welfare undertakings while enjoying the game. In addition, we made charitable donations to students and people in need, in the name of game players. We repaid the society and helped improve public welfare with what we earned from our loyal game players.

Awards	Issuing Institution
2022 Public Welfare Promoter Award	China Social Welfare Foundation
Outstanding Enterprise in Social Responsibility	Gamma Data



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Positive Energy of Games

Caring for children

- The Marvellous Snail x Living the Dreams**

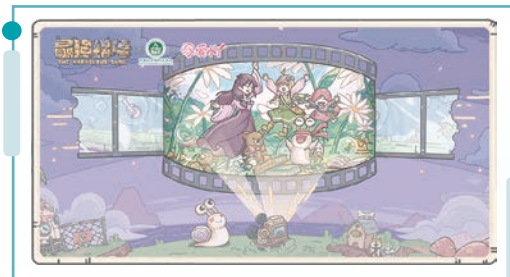
We launched the “Living the Dreams” operation, together with China Charities Aid Foundation for Children, to aid and care for orphans, street children, school dropouts and other children with special difficulties in the society. Game players can directly buy the public welfare gift packages to obtain game services. All income from the operation will be transferred to the foundation to aid children with special difficulties.



▲ “Living the Dreams” to help children with special difficulties ▲

- The Marvellous Snail x Caring for Growth**

We launched the “Caring for Growth” operation, together with Aixiaoya Fund of China Social Welfare Foundation, to care for and aid girls in underdeveloped areas. The operation aims to help adolescent girls face up to their growing troubles and grow up healthily, and to see that every girl can “bath in the sunshine full of happiness and peace”. All profits from the operation will be transferred to the foundation and co-branded “Be Strongirl” packages will also be prepared to care for the healthy growth of adolescent girls.



▲ “Caring for Growth” to protect adolescent girls ▲



Protecting the nature

- **The Marvellous Snail x Protecting the Populus Euphratica Forest**

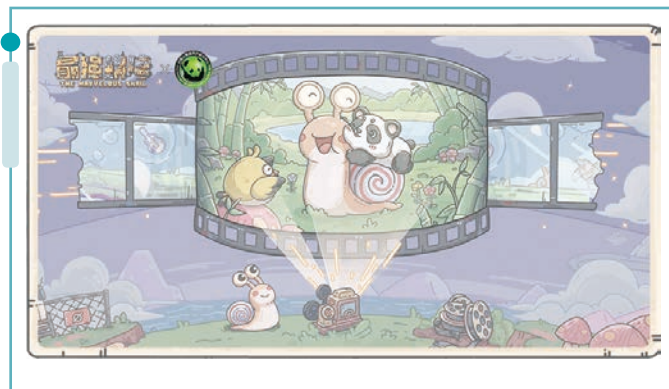
We launched the “Protecting the Populus Euphratica Forest” operation, together with China Green Foundation, to protect and restore the populus euphratica forest. The operation aims to raise money for collecting populus euphratica saplings and three-year care and maintenance of these saplings while calling for the society to protect the populus euphratica forest. After game players have bought the relevant public welfare gift packages in the games, the fund will be used to plant more than 2,500 populus euphratica trees to contribute to ecological conservation.



▲ Protecting the Populus Euphratica Forest ▲

- **The Marvellous Snail x Caring for Giant Pandas**

We launched the “Caring for Giant Pandas” operation, together with China Conservation and Research Centre for the Giant Panda, to protect giant pandas. The operation aims to publicise the protection and breeding ideas for giant pandas, lay a solid foundation for future giant panda protection, and help conserve biodiversity. All profits from the operation will be used to support the relevant protection programs in China Conservation and Research Centre for the Giant Pandas.



▲ Caring for Giant Pandas ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Charitable donation**

Caring for village schools

- **Aiding needy schools, caring for the children**

In 2022, we, on behalf of all players of the Marvellous Snail, donated pandemic prevention & control supplies, and learning & living materials to multiple schools.

In February, we donated 198 sets of desks and chairs and 561 winter school uniforms to Tiedong Primary School in Minning Town, Yongning County of Ningxia Hui Autonomous Region. We also donated 565 winter school uniforms to Yuhai Primary School in Minning Town.

In June, we donated 3,000 children's masks, 5,000 adult masks and 30 non-contact infrared thermometers to the school in Weijia Town, Wanyuan City, Sichuan Province for pandemic prevention and control. We also gave away writing brushes, Chinese drums, table tennis bats and other materials to the hobby classes, and school bags, umbrellas, skipping ropes, stopwatches, dictionaries and other daily necessities to the students.

In October, we participated in the "Entering the Ta-liang Mountains, helping the Yi children in studies" public welfare operation launched by China Association for Promoting Children's Culture and Art, and donated 2,000 children's masks, 2,959 pairs of cotton gloves, 290 cotton-padded clothes and 20 non-contact infrared thermometers, etc. to Yisa Primary School in Butuo County and Shuping Primary School in Xincheng Town, ZhaoJue County, Liangshan Yi Autonomous Prefecture, Sichuan Province.

In November, we donated 530 sets of three-piece suits (bed sheet, quilt cover and pillowcase), 100 down coats, 100 school bags, 100 pen boxes, 100 rulers and 100 pen sets and 450 books to Weiji Boarding Primary School in Lingbi County, Suzhou City, Anhui Province. We also donated 232 summer and winter school suits each, 10 office chairs, 20 children's basketballs and 30 adult basketballs to Zhenglou Primary School in Lingbi County.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As affected by the pandemic, we authorised the local foundation or schools to distribute the supplies on behalf of us. We hope that, through the charitable donations, the learning environment and living standard of the children in the underdeveloped areas can be improved and the healthy growth of the children can be assured.



▲ Public welfare activities in schools in Minning Town – Tiedong Primary School, Yuhai Primary School ▲



▲ Charitable donations to the school in Weijia Town ▲



▲ Public welfare operation launched by China Association for Promoting Children's Culture and Art ▲



▲ Public welfare activities in schools in Lingbi County, Anhui Province ▲



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Assistance to people's livelihoods

- **Fighting against the pandemic, supporting the society**

In August 2022, Xiamen saw a sudden surge of COVID-19 cases. On August 15, after learning that the lockdown areas in Kaiyuan Subdistrict were short of supplies, Qingci responded quickly to provide Hubin Community, Xibian Community and other four communities under lockdown with mineral water, energy drinks, etc. on the afternoon. On August 18, Qingci and Xiamen Games Industry Alliance jointly donated supplies to Xiamen Red Cross and the relief & rescue team to fight against the pandemic.



▲ Fighting against the pandemic, donating to the community ▲

- **Employee's participation**

We encourage employees to participate in social welfare programs and believe that the employee engagement can develop the pride and sense of responsibility of our employees, also as a result, promote the social reputation of the Company. Our employees have actively participated in the research and development and design in public welfare projects related to the themes of games, donated cold weather supplies, school supplies and sports goods to schools in mountainous areas, and donated anti-pandemic supplies to the regions severely affected by the pandemic. In 2022, we completed a total of 14 public welfare programs. Due to the resurgence of the pandemic, we did not arrange offline volunteer activities, and donations and assistance activities were entrusted to local people. In the future and when conditions permit, we will actively organise employees to participate in offline volunteer activities and public welfare operations to make contributions of our own to public welfare undertakings.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. ESG REPORTING GUIDE

KPI	Description	Reference
A1	<p>Emissions: General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p><i>Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.</i></p> <p><i>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</i></p> <p><i>Hazardous wastes are those defined by national regulations.</i></p>	<p>4.1 Energy conservation and emission reduction</p> <p>4.3 Emissions management</p>
KPIA1.1	The types of emissions and respective emissions data.	4.3 Emissions management
KPIA1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.1 Energy conservation and emission reduction
KPIA1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not Applicable
KPIA1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.3 Emissions management
KPIA1.5	Description of emissions target(s) set and steps taken to achieve them.	4. Green Operation
KPIA1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	<p>4. Green Operation</p> <p>4.3 Emissions management</p>



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI	Description	Reference
A2	<p>Use of Resource: General Disclosure</p> <p>Policies on the efficient use of resources, including energy, water and other raw materials.</p> <p><i>Note: Resources can be used in production, in storage, transportation, in buildings, electronic equipment, etc.</i></p>	4. Green Operation
KPIA2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	4.1 Energy conservation and emission reduction
KPIA2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	4.2 Water resource management
KPIA2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	4. Green Operation 4.1 Energy conservation and emission reduction
KPIA2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	4. Green Operation 4.2 Water resource management
KPIA2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not Applicable



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI	Description	Reference
A3	<p>The Environment and Natural Resources: General Disclosure</p> <p>Policies on minimising the issuer's significant impact on the environment and natural resources.</p>	Not Applicable
KPIA3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Not Applicable
A4	<p>Climate Change: General Disclosure</p> <p>Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.</p>	4.1 Energy conservation and emission reduction
KPIA4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	4.1 Energy conservation and emission reduction
B1	<p>Employment: General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</p>	3. Employee Rights
KPIB1.1	Total workforce by gender, employment type (for example, full or part time), age group and geographical region.	3.1 Employment of talents
KPIB1.2	Employee turnover rate by gender, age group and geographical region.	3.1 Employment of talents



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI	Description	Reference
B2	<p>Health and Safety: General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to providing a safe working environment and protecting employees from occupational hazards.</p>	3.4 Health and safety
KPIB2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	3.4 Health and safety
KPIB2.2	Lost days due to work injury.	3.4 Health and safety
KPIB2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	3.4 Health and safety
B3	<p>Development and Training: General Disclosure</p> <p>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</p> <p><i>Note: Training refers to vocational training, which can include internal and external courses paid by the employer.</i></p>	3.2 Talent development
KPIB3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	3.2 Talent development
KPIB3.2	The average training hours completed per employee by gender and employee category.	3.2 Talent development
B4	<p>Labour Standards: General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to preventing child and forced labour.</p>	3.1 Employment of talents
KPIB4.1	Description of measures to review employment practices to avoid child and forced labour.	3.1 Employment of talents
KPIB4.2	Description of steps taken to eliminate such practices when discovered.	3.1 Employment of talents



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI	Description	Reference
B5	<p>Supply Chain Management: General Disclosure</p> <p>Policies on managing environmental and social risks of the supply chain.</p>	2.5 Supply chain management
KPIB5.1	Number of suppliers by geographical region.	2.5 Supply chain management
KPIB5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	2.5 Supply chain management
KPIB5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	2.5 Supply chain management
KPIB5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	2.5 Supply chain management
B6	<p>Product Responsibility: General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>	2.1 Product responsibility
KPIB6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	2.1 Product responsibility
KPIB6.2	Number of products and service related complaints received and how they are dealt with.	2.1 Product responsibility
KPIB6.3	Description of practices relating to observing and protecting intellectual property rights.	2.3 Protection of intellectual property rights



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI	Description	Reference
KPIB6.4	Description of quality assurance process and recall procedures.	2.1 Product responsibility
KPIB6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	2.2 Information security and privacy protection
B7	<p>Anti-corruption: General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to bribery, extortion, fraud and money laundering.</p>	2.4 Business ethics
KPIB7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	2.4 Business ethics
KPIB7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	2.4 Business ethics
KPIB7.3	Description of anti-corruption training provided to directors and staff.	2.4 Business ethics
B8	<p>Community Investment: General Disclosure</p> <p>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.</p>	5. Public Welfare
KPIB8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	5. Public Welfare
KPIB8.2	Resources contributed (e.g. money or time) to the focus area.	5. Public Welfare



Corporate Governance Report

The Board of Directors is pleased to present to the shareholders the corporate governance report for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules and the Company has adopted the CG Code as its own code of corporate governance. The Board is of the view that the Company has complied with the applicable code provisions as set out in the CG Code during the Reporting Period. The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

BOARD OF DIRECTORS

Responsibilities

The fundamental responsibility of the Board of Directors (the "Board") is to exercise its best judgment and to act in the best interests of the Company and its Shareholders. The Board establishes the Company's purpose, values and strategy, and ensures that these align with the Company's culture. The Board is formally responsible for overseeing all major matters of the Company, including the formulation and approval 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, monitoring the performance of the senior management team (the "Senior Management") and other significant financial and operational matters.

All Directors at all times lead by example and carry out duties in good faith and with integrity, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders. They promote the desired corporate culture, which will instill and continually reinforce across the Company's values of acting lawfully, ethically and responsibly. The Board conducts a regular evaluation of its performance.

The daily management, administration and operation of the Company are formally 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 Senior Management on the Company's behalf. The Senior Management reports to the Board on a regular basis and communicates with the Board whenever required.

All Directors clearly understand the delegation arrangements in place. The Company will review the delegation arrangements periodically to ensure that they remain appropriate to the Company's needs.



CORPORATE GOVERNANCE REPORT

Board Composition

Executive Directors

Mr. Yang Xu (*Chairman of the Board and President*)
 Mr. Huang Zhiqiang (*Chief Executive Officer*)
 Mr. Liu Siming (*Chief Financial Officer*)
 Mr. Zeng Xiangshuo (*Chief Operating Officer*)

Independent Non-executive Directors

Mr. Zhang Longgen
 Professor Lam Sing Kwong Simon
 Ms. Fang Weijin

There is no financial, business, family or other material/relevant relationship between any members of the Board. The biographies of the Directors are set out under the section headed “Biographies of Directors and Senior Management” in this annual report. The division of responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in writing.

In order to take advantage of the skills, experiences and diversity of perspectives of the Directors and in order to ensure that the Directors give sufficient time and attention to the Group’s affairs, we request each of the Directors to disclose to the Company, the number and nature of offices held in public companies or organisations and other significant commitments, together with the identity of such public companies or organisations and the time involved in such commitments.

During the Reporting Period, the Board has at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, with (1) the appointment of at least three independent non-executive Directors who represent at least one-third of the Board and (2) at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has conducted an annual review and considers that all independent non-executive Directors are independent, taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules in the context of the length of service of each independent non-executive Director. The Board believes that the balance between the executive Directors and the independent non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the Shareholders and the Group.

As part of the Company’s corporate governance practice to provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, the independent non-executive Directors are clearly identified in all corporate communications containing the names of the Directors. In addition, an up-to-date list of Directors identifying the independent non-executive Directors and the roles and functions of the Directors is maintained on the Company’s website and the Stock Exchange’s website.



CORPORATE GOVERNANCE REPORT

Board Leadership

Our Chairman, Mr. Yang Xu, provides leadership for the Board to work effectively and performs its responsibilities. He is also responsible for drawing up and approving the agenda for Board meetings. Mr. Yang also ensures that all Directors are properly briefed on issues arising at Board meetings, and works with senior management to provide adequate, accurate, clear, complete and reliable information to members of the Board in a timely manner.

The Chairman together with the Board acts in the Company's best interests through encouraging all Directors to make a full and active contribution to the Board's affairs and encouraging Directors with different views to voice their concerns. The Chairman also allows sufficient time for discussion of issues. Lastly, he promotes a culture of openness and debate by facilitating the effective contribution of the independent non-executive Directors.

Appointment and Re-election of Directors

Pursuant to Article 16.19 of the Company's Articles of Association, at every annual general meeting of the Company, 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 provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Each of the executive Directors has entered into a service contract with the Company, under which he agreed to act as executive Director for an initial term of three years or until the third annual general meeting of the Company since the Listing (whichever is sooner), subject to the Articles of Association and the Listing Rules, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Each of the independent non-executive Directors is appointed for an initial term of three years or until the third annual general meeting of the Company since the Listing (whichever is sooner). Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee. The Company does not grant equity-based remuneration (e.g. share options or grants) with performance-related elements to independent non-executive Directors to avoid bias in their decision-making and compromising their objectivity and independence. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.



CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

The independent non-executive Directors play a significant role in the Board and the development of the Company's strategy and policies by virtue of their independent judgment and constructive and informed views, which carry significant weight in the Board's decision. The functions of independent non-executive Directors include (i) bringing an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct, (ii) taking the lead where potential conflicts of interests arise, (iii) scrutinising the Company's performance in achieving agreed corporate goals and objectives and (iv) monitoring performance reporting.

During the Reporting Period, the Company held four Board meetings and one general meeting. On March 28, 2023, a Board meeting was held to consider and approve, among other things, the consolidated financial statements in this annual report. All independent non-executive Directors have attended and participated at the board meeting and given the benefit of their skills, expertise and varied backgrounds and qualification.

Directors' Training and Professional Development

Every newly appointed Director has been given a comprehensive, formal and tailored induction upon their appointment. The Company will continue to arrange and fund continuous professional training 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 and briefings on the Company's operations, performance, position and prospects. These measures ensure that (i) the Directors have a proper understanding of the Company's operations and business, (ii) the Directors are fully aware of their responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies and (iii) the Directors' contribution to the Board remains informed and relevant.

During the Reporting Period, the Company organised internal training sessions for the Directors, and sent reading material on relevant topics to Directors for their reference and studying, including reading materials in relation to legal and regulatory updates. The training sessions covered a wide range of relevant topics including but not limited to new regulations and practices related to ESG, and the amendments of the Listing Rules.

The Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Reporting Period.



CORPORATE GOVERNANCE REPORT

Records of training received by the Directors for the Reporting Period are summarized as follows:

Director	Participation in continuous professional development ¹
Mr. Yang Xu	✓
Mr. Huang Zhiqiang	✓
Mr. Liu Siming	✓
Mr. Zeng Xiangshuo	✓
Mr. Zhang Longgen	✓
Professor Lam Sing Kwong Simon	✓
Ms. Fang Weijin	✓

Note:

1. Attended training/seminar/conference arranged by the Company or other external parties or read legal and regulatory updates and other reference materials relating to, among others, Directors' duties and responsibilities, corporate governance and Listing Rules requirements.

DIVERSITY

Board Diversity Policy

We have adopted a diversity policy of the Board (the "Board Diversity Policy") which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board.



CORPORATE GOVERNANCE REPORT

A summary of the Board Diversity Policy is set out as follows:

Policy Statement

The Company recognizes the benefits of having a diverse Board, and views an appropriate range and balance of talents, skills, experience and diversity of perspectives at the Board level as a business imperative that will help the Company achieve its strategic objectives and maintain a competitive advantage.

Measurable Objectives

Pursuant to the Board Diversity Policy, we seek to achieve diversity of our Board through the consideration of a number of factors when selecting candidates to our Board, including but not limited to professional experience, talent, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. All appointments of the members of the Board should be made on merit.

Our Nomination Committee will review and assess the composition of the Board and make recommendations to the Board on the appointment of members of the Board.

Monitoring, Reporting and Review

Our Nomination Committee is responsible for reviewing the diversity of our Board. The Board will review the implementation and effectiveness of the Board Diversity Policy annually, develop and review measurable objectives for implementing the Policy, and monitor the progress on achieving these measurable objectives in order to ensure that the Policy remains effective.

Policy Compliance

Under the current composition of our Board, our Directors have a balanced mix of knowledge and skills, including in management, strategic development, business development, sales and marketing, finance and information science and investments. They obtained degrees in diverse areas such as engineering, computer science and management. Our Directors range from 39 to 64 years old. After due consideration, our Board believes that based on our existing business model and different backgrounds of our Directors, the composition of our Board satisfies our Board Diversity Policy.



CORPORATE GOVERNANCE REPORT

GENDER DIVERSITY

Gender Diversity at Board Level

We recognize that the gender diversity at the Board level can be improved. In particular, after the appointment of Ms. Fang Weijin as an Independent Non-Executive Director with effect on December 16, 2021, gender diversity is achieved in respect of the Board as it is no longer a single gender board. That said, we will continue to strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommended best practices. 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.

The Company plans to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development.

The Company is of the view that this strategy will offer chances for the Board to identify capable female employees to be nominated as a member of the Board in the future with an aim to providing the Board with a pipeline of female candidates to achieve gender diversity in the Board in the long run. The Board currently has one female Director and as such has achieved gender diversity in respect of the Board. The Nomination Committee will use its best endeavors and on suitable basis, identify and recommend female candidates to our Board for its consideration on appointment of a Director as and when appropriate with the goal to maintain at least one female Director in our Board, subject to the Directors (i) being satisfied with the competence and experience of the relevant candidate based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interests of the Company and its Shareholders as a whole when considering the appointment. The Company believes that such merit-based selection process with reference to the Board Diversity Policy and the nature of our business will be in the best interests of the Company and its Shareholders as a whole.

The Board recognises the importance of diversity in the workforce level. The Group employs our staff by talents and respect our staff's personal choices, regardless of gender, age, religion, nationality etc. The gender ratios in the workforce by the end of the year ended December 31, 2022 are as follows:

Male 67%; Female 33%.



CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Company has adopted the practice of holding Board meetings regularly in person for at least four times a year at approximately quarterly intervals, with active participation of the majority of the Directors entitled to be present.

Notice of not less than 14 days is given for all regular Board meetings to provide all Directors with the opportunity to attend the meeting and include matters in the agenda. For other Board meetings, reasonable notice is given. The agenda and accompanying board papers are despatched in full to the Directors or committee members at least three days before meetings to ensure that they have sufficient time to review these documents. To enable the Directors to make informed decisions, the management will supply the Board and its committees with adequate, complete and reliable information in a timely manner and the Directors can access board papers and related materials of appropriate form and quality.

If any Director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. When a Director or a committee member is unable to attend a meeting, he is advised of the matters to be discussed and given an opportunity to make his views known to the Chairman prior to the meeting.

If a substantial Shareholder or a Director has a conflict of interest in a matter for consideration which is determined to be material by the Board, the Board should deal with the matter with a physical meeting rather than a written resolution. If an independent non-executive Director and his close associates have no material interest in the transaction, he should attend that Board meeting.

Minutes of the Board meetings and committee meetings record in detail the matters considered by the Board and the committees and the decisions reached, including any concerns and dissents expressed by the Directors. Draft and final versions of the minutes of the meetings are sent to the Directors for comments and records respectively within a reasonable time after each meeting. The final minutes with the relevant board papers and related materials are kept by the joint company secretaries and are available for review and inspection by the Directors at any time.

The Directors have full and timely access to all the information of the Company and the advice and services of the joint company secretaries, with a view to ensuring that Board procedures and all applicable laws, rules and regulations are followed. The Directors can seek independent professional advice in performing their duties at the Company's expense. The Board has resolved to provide separate independent professional advice to the Directors to assist them in performing their duties to the Company. Individual Directors are encouraged to access and consult with the Company's Senior Management independently and separately from the Board, but will not rely purely on information provided voluntarily by the Senior Management and will make further enquiries when necessary.



CORPORATE GOVERNANCE REPORT

The Board has established mechanisms to ensure that independent views and input are available to the Board (i) the Chairman will at least hold one meeting with independent non-executive Directors and without the presence of other Directors; and (ii) the independent non-executive Directors participate in board committees (including Audit Committee, Nomination Committee and Remuneration Committee) meetings to bring independent views, advice and judgment on important issues relating to the Company's strategy, policy, financial performance. During the Reporting Period, the Board reviewed the implementation of the above-mentioned mechanism and considered the mechanism to be appropriate and effective.

During the Reporting Period, the Company held four Board meetings and all members of the Board attended the four Board meetings. The Chairman held one meeting with the independent non-executive Directors without the presence of other Directors. The Company will comply with code provision C.5.1 of the CG Code to hold at least four Board meetings each year, about once every quarter, and code provision C.2.7 of the CG Code for the Chairman to hold at least one meeting with the independent non-executive Directors without the presence of other Directors each year.

On March 28, 2023, a Board meeting was held, to consider and approve, among other things, the consolidated financial statements in this annual report.

BOARD COMMITTEES

To better serve the long-term interests of our stakeholders, the Board delegates certain matters requiring particular time, attention and expertise to its committees. The Board has determined that these matters are better dealt with by the committees as they require independent oversight and specialist input. As such, the Board has established three committees to assist the Board, namely Audit Committee, Remuneration Committee and Nomination Committee. Each of the Committees has its terms of reference which clearly specifies its powers and authorities and is responsible for overseeing particular aspects of the Group's affairs. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the Company's website and the Stock Exchange's website.

Each of the Committees will report to the Board on a regular basis, and the chairman of the Committee will report the findings and recommendations to the Board at the next meeting of the Board following each meeting of the Committee, unless there are legal or regulatory restrictions on its ability to do so.



CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consist of the three independent non-executive Directors, namely Mr. Zhang Longgen (Chairman), Professor Lam Sing Kwong Simon and Ms. Fang Weijin. Mr. Zhang Longgen possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing auditor, PricewaterhouseCoopers. The joint company secretaries are responsible for keeping the full minutes of the Audit Committee meetings. The draft and final versions of minutes of the meetings are sent to all Committee members for their comment and records within a reasonable time after the meeting.

The Audit Committee has access to independent professional advice and is provided with sufficient resources to perform its duties.

The main duties of the Audit Committee include the following:

- a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and 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, and discussing with the auditor before the audit commences, the nature and scope of the audit and reporting obligations;
- c) developing and implementing policy on engaging an external auditor to supply non-audit services, and reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- d) monitoring the integrity of the Company's financial statements, Annual Reports, accounts, interim reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee focuses particularly on:
 - 1) any changes in accounting policies and practices;
 - 2) major judgmental areas;
 - 3) adequacy of disclosure, consistency within the financial statements and with prior disclosures;
 - 4) significant adjustments resulting from the audit;
 - 5) the going concern assumptions and any qualifications;



CORPORATE GOVERNANCE REPORT

- 6) compliance with accounting standards; and
- 7) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- e) Regarding (d) above:
 - 1) liaising with the Board, the Senior Management and the person appointed as the Company's qualified accountant and meeting with the Company's auditors at least two times a year; and
 - 2) considering any significant or unusual items that are, or may need to be, reflected in the report and accounts, 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;
- f) reviewing the Company's financial controls and reviewing the Company's risk management and internal control systems;
- g) discussing the risk management and internal control system with the management to ensure that the management has performed its duty in implementing an effective system, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- h) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;
- i) ensuring coordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- j) reviewing the financial and accounting policies and practices of the Company and its subsidiaries. Special meetings may be convened at the discretion of the Chairman or at the request of the Senior Management to review significant control or financial issues;
- k) reviewing the external auditor's management letter, any material queries raised by the auditor to the management about accounting records, financial accounts or systems of control and the management's response;
- l) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- m) reviewing management's reports on the effectiveness of systems for internal control and financial reporting;
- n) acting as the key representative body for overseeing the Company's relations with the external auditor;



CORPORATE GOVERNANCE REPORT

- o) making recommendations to the Board on the resolution of any disagreements between the management and the external auditor regarding financial reporting;
- p) discussing problems and reservations arising from the interim review and final audits, and any matters the external auditor may wish to discuss (in the absence of the management where necessary);
- q) reporting to the Board for decisions or suggestions made by the Audit Committee, unless there is any circumstance that such report is limited by law or regulatory restrictions;
- r) ensuring that the arrangements made by the Company enable the employees to raise concerns in confidence about possible improprieties in financial reporting, internal control or other matters, ensuring that proper arrangements are in place for the Company for fair and independent investigation of these matters and for appropriate follow-up action;
- s) reporting to the Board on the above matters;
- t) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- u) reviewing and monitoring the training and continuous professional development of Directors and the Senior Management;
- v) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- w) developing, reviewing and monitoring the Company's code of conduct and compliance manual, if any, applicable to employees and the Directors;
- x) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report in the Annual Report; and
- y) considering other topics, as defined by the Board from time to time.

During the Reporting Period, the Audit Committee has held two meetings, in which the Audit Committee has performed, among other things, the following tasks:

- reviewed the audited annual results and annual report for the year ended December 31, 2021;
- review the unaudited interim results and interim report for the year ended June 30, 2022;
- the Company's continuing connected transactions;
- in relation to the external auditor, reviewed their plans, reports and management letter, fees, involvement in non-audit services, and their terms of engagement;



CORPORATE GOVERNANCE REPORT

- made recommendations to the Board for the re-appointment of the external auditor; and
- reviewed the risk management and internal control systems and the effectiveness of the Company's internal audit function.

According to code provision D.3.3(e)(i) of the CG Code, the Audit Committee must meet with the Company's auditors at least twice a year. During the Reporting Period, the Audit Committee held two meetings (including two meetings with external auditors of the Company) to review the Company's financial report and accounts for the year ended December 31, 2022 as well as the Company's internal audit function and any recommendations on the management and control of internal risks. All members of the Audit Committee attended the meetings of the Audit Committee.

The Auditor was invited to attend the Audit Committee meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. The Audit Committee also met with the Auditor without the presence of management. The Audit Committee is satisfied with the independence and engagement of the Auditor. As such, the Audit Committee has recommended the re-appointment of the Auditor.

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee consists of two independent non-executive Directors, namely Professor Lam Sing Kwong Simon (Chairman) and Mr. Zhang Longgen, and one executive Director, namely Mr. Yang Xu.

The Remuneration Committee consults the Chairman and the Chief Executive Officer about its remuneration proposals for other executive Directors. The Remuneration Committee has access to independent professional advice and is provided with sufficient resources to perform its duties.

The main duties of the Remuneration Committee include the following:

- a) making recommendations to the Board on the Company's policy and structure for all Directors' and the Senior Management's remuneration and on the establishment of a formal and transparent procedure for developing the remuneration policy;
- b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- c) making recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management members, including benefits in kind, pension rights and compensation payments, including any compensation payable for the loss or termination of their office or appointment;
- d) making recommendations to the Board on the remuneration of non-executive Directors;
- e) considering salaries paid by comparable companies, time commitments, responsibilities and employment conditions elsewhere in the Group;



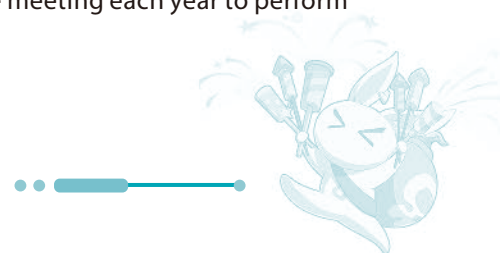
CORPORATE GOVERNANCE REPORT

- f) reviewing and approving the compensation payable to executive Directors and the 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 the 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 (as defined in the Listing Rules) is involved in determining his own remuneration;
- i) advising the Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules;
- j) reviewing the basis of and, if the Committee so decides, approving any significant discretionary payment to an employee who is neither a Director nor a member of the Senior Management but who is related to any Director or any member of Senior Management;
- k) making recommendations to the Board regarding the content of the Board's annual report to Shareholders on Directors' and Senior Management's remuneration (including the Company's policy on such persons' remuneration, details of individual remuneration and other terms and conditions);
- l) reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules; and
- m) considering other matters that are related to remuneration paid or payable by the Group, as defined or assigned by the Board or imposed by the Listing Rules or applicable laws from time to time.

During the Reporting Period, the Remuneration Committee held one meeting, in which the Remuneration Committee has performed, among other things, the following tasks:

- reviewed and make recommendations to the remuneration policy and structure of Directors and senior management;
- assessed performance of executive Directors;
- reviewed and made recommendations to the Board on the remuneration packages and policy of Independent non-executive Directors; and
- assessed performance of certain Directors and senior management and reviewed and made recommendations to the Board on the remuneration packages for certain Directors and senior management.

Going forward, the Remuneration Committee will continue to hold at least one meeting each year to perform its duties and comply with its terms of reference in all aspects.



CORPORATE GOVERNANCE REPORT

Remuneration Policy

The Directors' emolument package comprise Director's fee, basic salaries and allowance, bonuses, share options and others. The following factors were considered when determining Directors' remuneration package:

- Business needs and company development;
- Responsibilities of the Directors and individual contribution to the Group;
- Changes in markets, e.g. attract and retain key talent by being market competitive; and
- Incentivize sustainable long-term performance and long-term alignment with shareholders' interests.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the CG Code. The Nomination Committee consists of one executive Director, namely Mr. Yang Xu (Chairman), and two independent non-executive Directors, namely Professor Lam Sing Kwong Simon and Ms. Fang Weijin.

The Nomination Committee has access to independent professional advice at the Company's expense and is provided with sufficient resources to perform its responsibilities.

The main duties of the Nomination Committee include the following:

- a) proposing a set of personal attributes to the Board, the adoption of which shall form the basis of evaluation of candidates for directorship;
- b) proposing a set of procedures for processing nominations of candidates for the Board's approval;
- c) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and recommending any proposed changes to the Board to complement the Company's corporate strategy;
- d) developing and maintaining the nomination policy for the directorship of the Company (the "Nomination Policy"), including the nomination procedures as well as the procedures and criteria for the Committee to identify, select and recommend candidates for directorship during the year;
- e) reviewing the nomination policy regularly and disclosing such policy and the progress towards the goals of the policy as set out in the Company's Corporate Governance Reports, reviewing and discussing on any necessary amendments, and making recommendations to the Board for approval;



CORPORATE GOVERNANCE REPORT

- f) developing and maintaining the Board Diversity Policy, monitoring the implementation of the Board Diversity Policy, and regularly reviewing and disclosing such policy or its highlights in the Company's Corporate Governance Reports, reviewing and discussing any necessary amendments, and making recommendations with respect to them to the Board for approval;
- g) identifying individuals suitably qualified to become Board members, considering factors including but not limited to whether the individual may bring different views and perspectives, skills and experience to the Board, and whether Board diversity can be promoted with the individuals' participation;
- h) selecting and nominating relevant individuals for directorships or making recommendations thereon to the Board in accordance with the Nomination Policy;
- i) assessing the independence of independent non-executive Directors, reviewing the independent non-executive Directors' annual confirmations on their independence and making disclosure of its review results in the Corporate Governance Reports;
- j) assessing the adequacy of time that a candidate nominated as a Director of the Company can devote for its directorship, considering factors including the number of other listed companies in which such candidate has a directorship;
- k) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer;
- l) deciding and making recommendations to the Board as to whether a Director is able to and has adequately carried out his duties as a Director of the Company; in particular, where the subject Director has multiple board representations;
- m) regularly reviewing and reporting to the Board the contributions required from and the suitability of Directors and the Senior Management to perform their responsibilities to the Company, and whether they are spending sufficient time performing them, to ensure that they meet the terms of employment and performance objectives;
- n) making recommendations to the Board as to the re-appointment or replacement of any Director or member of the Senior Management;
- o) where the Board proposes a resolution to elect an individual as a Director at the general meeting, setting out in the circular to Shareholders and in the case of an appointment of an independent non-executive Director, an explanatory statement accompanying the notice of the relevant general meeting:
 - 1) the process used for identifying the individual and why the Remuneration Committee believes the individual should be elected and the reasons why the Remuneration Committee considers him to be independent;
 - 2) if the proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the Board;



CORPORATE GOVERNANCE REPORT

- 3) the perspectives, skills and experience that the individual can bring to the Board; and
- 4) how the individual contributes to diversity of the Board.

During the Reporting Period, the Nomination Committee held one meeting, in which the Nomination Committee has performed, among other things, the following tasks:

- reviewed the structure, size and composition of the Board;
- made recommendations to the Board on the appointment and re-appointment of Directors; and
- assessed the independence of the independent non-executive Directors.

Going forward, the Nomination Committee will continue to hold at least one meeting each year to perform its duties and comply with its terms of reference in all aspects.

NOMINATION POLICY FOR DIRECTORSHIP

Pursuant to Article 16.2 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.

Pursuant to Article 16.3 of the Articles of Association, 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 the Articles of Association and the Cayman Companies Act, 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.

Pursuant to Article 16.6 of the Articles of Association, the Company may by ordinary resolution at any time remove any Director before the expiration of his period of office notwithstanding anything in the Articles of Association 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.



CORPORATE GOVERNANCE REPORT

The Board has adopted the Nomination Policy, which aims to set out the approach to enable the Nomination Committee to nominate a Director to the Board. Details of the Policy and the related nomination procedure are set out as follows:

Director Selection Criteria

In the determination of the suitability of a candidate, the Nomination Committee will consider a range of factors, including but not limited to the following selection criteria, before making recommendations to the Board:

- reputation for integrity;
- experience in the entertainment industry and/or business strategy, management, legal and financial aspects;
- ability to assist the Board in effective performance of its responsibilities;
- the perspectives and skills that the proposed candidate is expected to bring to the Board;
- diversity in all its aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- commitment in respect of available time and relevant interest; and
- in the case of selection for Independent Non-Executive Directors, the independence of the proposed candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee has the discretion to nominate any person as it considers appropriate. The Nomination Committee shall report its findings and make recommendations to the Board on the appointment of appropriate candidate for directorship for decision and succession planning. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.



CORPORATE GOVERNANCE REPORT

***Nomination Procedure by
the Nomination Committee***

The Company has adopted a nomination procedure for election of Directors. Such policy, devising the criteria and procedures of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors of the Company.

Nomination Committee shall call a meeting and invite nominations of candidates from Board members if any, for consideration by the committee prior to its meeting. Alternatively, such nomination may be approved by the committee by way of written resolutions. For filling a casual vacancy, the committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the committee shall make nominations to the Board for its consideration and recommendation.

The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing Board effectiveness and diversity.

***Monitoring, Reporting
and Review***

The Nomination Committee will report annually on the Board's composition and make appropriate disclosures regarding the Board Diversity Policy in the Corporate Governance Report of the Company's annual reports.

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.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group and presenting a balanced, clear and understandable assessment 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.



CORPORATE GOVERNANCE 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 responsible for ensuring that the Company establishes and maintains sound risk management and internal control systems within the Group, and overseeing them and reviewing their effectiveness on an ongoing basis. 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 and not absolute assurance against material misstatement, loss or fraud.

Risk Management and Internal Control Systems

Our Board (through the Audit Committee) is responsible for establishing the Company's risk management and internal control systems. For the purposes of risk management and internal control, we have adopted various measures and procedures regarding our business operations.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. The Company provides periodic training on these measures and procedures to our employees and regularly monitors their implementation in our game development, publishing and operation processes. Business departments actively cooperate with internal control and internal audit functions, report to the Senior Management 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. Risk management report, covering identified risks, evaluation and proposed responding measures, is submitted to the Executive Directors periodically to monitor the implementation of our risk management policies across our Group on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

In addition, the Company has set up an 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.

Lastly, the Company has established a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, about possible improprieties in any matter related to the Company.



CORPORATE GOVERNANCE REPORT

Significant Risks of the Company

Below is a summary of the significant risks of the Company along with the applicable response strategies. The Company's risk profile may change and the list below is not intended to be exhaustive.

1. Financial Risk

We have adopted internal audit policies in connection with our financial risk management. Our audit department is responsible for conducting internal annual auditing, participating in the preparation of our budget plans and overseeing the implementation of our internal controls. We also plan to provide regular training to our audit department staff to ensure that they understand these policies.

2. Information Security Risk

We have implemented internal control procedures to protect the safety of user data and ensure compliance with applicable regulatory requirements. Our information technology team monitors the operating status of our network devices, servers, operating systems and database, and responds to and deals with any issues that may arise in a timely manner. We have also established a company-wide policy on data collection and protection practices, which primarily includes: (i) providing adequate notice to players as to how their data is being collected and used, (ii) encrypting player data stored on our system and setting up cloud and external firewalls for our games, (iii) limiting access of player data to authorized employees, and (iv) making reasonable efforts to prevent loss or leakage of player data.

In addition, we enter into user privacy agreement with our players on data collection and protection, and we did not experience any material information leakage or loss of user data during the four financial years ended December 31, 2022.



CORPORATE GOVERNANCE REPORT

3. Fraud Risk

In recent years, fraudulent activities have occurred frequently in the Internet and technology industry and therefore integrity has been an important concern. As the Company continues developing its business, its business scale and complexity increased, and consequently the fraud risk inevitably increased to a certain extent.

The Company, with its belief in the value of integrity, has zero tolerance for fraud, and is determined to fight against any fraudulent activities. The Group monitors fraudulent activities by establishing code of conduct for employees and anti-fraud rules. The anti-fraud team consists of five members and is authorized to execute anti-fraud measures, including overseeing the implementation of the code of conduct for employees and taking disciplinary actions against non-compliance, handling complaints and whistle-blower reports, conducting internal investigations, reporting to the Board, and timely rectifying identified corrupt or fraudulent activities and taking preventative measures to avoid future non-compliance.

The Company has also established policies and systems that promote and support anti-corruption laws and regulations. We require our employees to follow our employee manual and code of business conduct and ethics, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We also carry out regular on-the-job compliance training to our Senior Management and employees to maintain a healthy corporate culture and enhance their compliance perception and responsibility. We also have adopted an Anti-Corruption Policy and Internal Audit Policy to safeguard against any corruption within our Group. Our staff can anonymously report any suspected corrupt incident to our legal team. Our legal team is responsible for investigating the reported incidents and taking appropriate measures.

4. Legal Risk

We have a dedicated in-house legal team responsible for ensuring our mobile game operations' compliance with the relevant rules and regulations. Our legal department examines our contract terms, reviews all relevant licenses, approvals and permits required of us, conduct due diligence into our counterparties, and continuously monitors our compliance status and legal risks. With the assistance of external legal advisors, our Directors also continuously monitor our compliance with relevant laws and regulations.

5. Intellectual Property Risk

To manage IP risks, we review carefully required documentation before the official launch of a game to spot any potential risks. We were not subject to any material IP-related complaints or allegations during the five financial years ended December 31, 2022.



CORPORATE GOVERNANCE REPORT

Inside Information

The Company attaches utmost importance to the proper handling and dissemination of inside information.

The Company has in place a framework for the handling and disclosure of inside information in compliance with the SFO. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner so as to allow all the Shareholders and stakeholders to assess the latest position of the Group. The framework and its effectiveness are subject to review on a regular basis according to established procedures.

Under the framework, 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. If an employee is aware of any project, transaction, information or situation which he thinks could potentially be inside information, he should contact the joint company secretaries as soon as possible. Legal analysis and consultations with the Directors and Senior Management will be made so as to identify whether any such information constitutes inside information and is required to be disclosed to the public pursuant to the SFO.

Effectiveness of Risk Management and Internal Control

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Group's risk management and internal control system and reporting the results to the Audit Committee. The Audit Committee is responsible for conducting a review of the effectiveness of the Group's risk management and internal control systems, including all material controls (such as financial, operational and compliance controls), at least once every year.

The Audit Committee's process of reviewing the effectiveness of the risk management and internal control systems and resolving material internal control defects comprises of, among other things: (1) meetings with the business department, the internal audit department, the internal control department, legal team, and the external auditor (as the case maybe); (2) reviewing the relevant work reports and information of key performance indicators, (3) the Senior Management's self-assessment on internal control and (4) discussing the significant risks with the Senior Management.

The Board has conducted a review of the adequacy and effectiveness of the Group's risk management and internal control systems throughout the year ended December 31, 2022, and considers that they are adequate and effective. The Board has also received a confirmation from the management on the effectiveness of the Group's risk management and internal control systems throughout the year ended December 31, 2022.

In addition, based on the report of the Audit Committee, the Board believes that the Company's accounting, internal audit and financial reporting functions, and ESG performance and reporting have been performed by staff with the appropriate qualifications and experience and that such staff receives appropriate and sufficient training and development. The Board also believes that sufficient resources and an adequate budget have been obtained for such functions.



CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

Mr. Zhu Chengyin and Ms. So Shuk Yi Betty, a vice president of SWCS Corporate Services Group (Hong Kong) Limited (an external 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. Ms. So Shuk Yi Betty was appointed to assist Mr. Zhu Chengyin to discharge his duties as a company secretary of the Company. The primary corporate contact person at the Company is Mr. Zhu Chengyin, the director of capital markets and the joint company secretary of the Company. For the year ended December 31, 2022, Mr. Zhu Chengyin and Ms. So Shuk Yi Betty have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

The Board is responsible for approving the selection, appointment or dismissal of a company secretary. A physical Board meeting instead of a written resolution should be used to deal with the appointment and dismissal of a company secretary.

DIVIDEND POLICY

The Company does not have any pre-determined dividend payout ratio. The payment and the amount of dividends will be at the discretion of the Board and will also depend on factors such as the Company's results of operations, cash flow, capital requirements, general financial condition, contractual restrictions, future prospects and other factors that the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to the Articles of Association and the Cayman Companies Act. Subject to the Cayman Companies Act and the Articles of Association, the Company in general meeting may declare dividends, but shall not exceed the amount recommended by the Board. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board believes that effective and on-going communication with the Shareholders and prospective investors is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely, equal, ready and regular disclosure of its corporate information, which enables the Shareholders and investors to make the best informed investment decisions.

The Chairman is responsible for ensuring that appropriate steps are taken to provide effective communication with the Shareholders and that their views are communicated to the Board as a whole. The Company has in place a policy (the "Shareholders' Communication Policy") to promote effective and on-going communication between the Company and the Shareholders and to ensure that the Shareholders' views and concerns are communicated to the Board and appropriately addressed. As part of its regular review, the Board has reviewed the Shareholders' Communication Policy for the year ended December 31, 2022 and is of the view that the Policy is effective and adequately implemented.



CORPORATE GOVERNANCE REPORT

General Meetings

The Company encourages Shareholders' active participation in annual general meetings and other general meetings or other proper means. As such, pursuant to Article 12.4 of the Articles of Association, the Company sends notices to Shareholders for annual general meetings at least 21 clear days before the meeting and at least 14 clear days for all other general meetings. The Company's general meetings provide a transparent and open platform for the Company's Shareholders to communicate with the Board and the Senior Management.

The Chairman will attend and invite the chairmen of the Audit, Remuneration and Nomination Committees to attend all annual general meetings. They will be available to answer questions at the annual general meetings. The Company's management also ensures that the external auditor attend all annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

In order to ensure that Shareholders' interests and rights are adequately protected, a separate resolution will be proposed by the chairman for each substantially separate issue at the general meetings. There will be no "bundling" of resolutions unless they are interdependent and linked forming one significant proposal. When resolutions are "bundled", the Company will explain the reasons and material implications in the notice of meeting.

All resolutions will be voted by poll pursuant to the Articles of Association and the Listing Rules. To ensure that the Shareholders are familiar with the detailed procedures for conducting a poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from the Shareholders on the voting procedures will be answered before the poll voting starts. Poll results will be posted on the Company Website and the Stock Exchange's website after each general meeting.

Other Communications

The Company will publish in a timely manner both English and Chinese versions of (i) any corporate communication (as defined in the Listing Rules) of the Company that requires Shareholders' attention or action, and (ii) announcements relating to matters to be disclosed under the Listing Rules (including but not limited to those involving inside information, corporate actions and corporate transactions).

The Company also ensures that the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, maintains the most up-to-date information relating to the Shares at all times so that it can respond effectively to the Shareholders' enquiries.

The Company maintains a website at <https://www.qcplay.com/notice.html> as a communication platform with the Shareholders and investors, where information on the Company's announcements, financial information and other information are available for public access. Shareholders and investors may send enquiries or requests to the Company, for the attention of the Board, as follows:

Address: 4 Wang Hai Road, Xiamen Software Park II, Xiamen, Fujian Province, China

Postcode: 361008

Email: ir@qcplay.com



CORPORATE GOVERNANCE REPORT

The Company continues to enhance communications and relationships with Shareholders and investors. Designated Senior Management members maintain regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from Shareholders and investors are dealt with in an informative and timely manner.

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 written requisition of any one or more Shareholders holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the Company's principal office in Hong Kong (or the Company's registered office in the event the Company ceases to have such a principal office), specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitioner(s). If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitioner(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board. Any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There is no provision allowing the Shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director (Article 16.4) under the Cayman Islands Companies Laws or the Articles of Association. Shareholders who wish to put forward a resolution may follow the procedures set out in the preceding paragraph to request the Company to convene an extraordinary general meeting for any business specified in such written requisition.

DISCLOSURE OF OTHER INFORMATION

The Company is required to disclose certain information pursuant to the Listing Rules and the CG Code. Set out below is the information which has not been covered above.

Changes in Constitutional Documents

At the annual general meeting of the Company held on June 6, 2022, a special resolution was passed by the shareholders of the Company approving certain amendments to the Company's memorandum and articles of association ("M&A") (i) to allow general meetings to be held as an electronic meeting or a hybrid meeting; (ii) to bring the Articles of Association in line with amendments made to Appendix 3 of the Listing Rules and applicable laws and procedures of the Cayman Islands; and (iii) making certain minor housekeeping amendments to the Articles of Association for the purpose of clarifying existing practice and making consequential amendments in line with the amendments to the Articles of Association. Details of the amendments were set out in the Company's announcement dated March 24, 2022 and circular dated April 22, 2022. The amended M&A is available on the websites of the Stock Exchange and the Company.



CORPORATE GOVERNANCE REPORT

In addition, reference is made to the announcement of the Company dated March 28, 2023. The Board proposes to amend the Articles of Association for the purpose to conform the core shareholder protection standards in the Appendix 3 of the Listing Rules which became effective on January 1, 2022. Details of the proposed amendment is set out in the Company's circular dated April 21, 2023.

Auditor's Remuneration

For the year ended December 31, 2022, the fee paid/payable to the external auditor of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services is set out as follows:

Type of services provided by the external auditor	Amount RMB'000
Assurance service – annual report:	4,290
Non-assurance service:	320
Total	4,610

Model Code for Securities Transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' dealings in securities of the Company. The Directors have confirmed, following specific enquiries by the Company, compliance with the required standard set out in the Model Code and its code of conduct for the year ended December 31, 2022.

The Company has also established written guidelines for dealings in the Company's securities by employees or directors of the Group who are likely to possess inside information of the Company or the Company's securities (the "Guidelines for Securities Dealings by Relevant Employees") on terms no less exacting than the Model Code. During the year ended December 31, 2022, no incident of non-compliance with the Guidelines for Securities Dealings by Relevant Employees has been noted by the Company.

Directors and Officers Liability Insurance

The Company has arranged appropriate directors and officers liability insurance in respect of legal action against the Directors and the Company's officers.



Independent Auditor's Report

To the Shareholders of Qingci Games Inc.

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Qingci Games Inc. (the "Company") and its subsidiaries (the "Group"), which are set out on pages 131 to 235, comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of comprehensive income 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 December 31, 2022, 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.



INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION (CONTINUED)

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.

The key audit matter identified in our audit is related to revenue recognition on online game operating services – estimates of lifespan of in-game virtual items.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition on online game operating services – estimates of lifespan of in-game virtual items</p> <p>Refer to note 2.23 and note 5 to the consolidated financial statements.</p> <p>During the year ended December 31, 2022, the Group generated revenue from its online game operating services amounted to approximately RMB592 million, representing approximately 94% of the Group's revenue.</p> <p>The Group 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 determined that it is obligated to provide on-going services to game players.</p>	<p>Our procedures performed in relation to the estimation of lifespan of in-game virtual items included:</p> <p>We obtained an understanding of management's internal control and assessment process of estimates of lifespan of in-game virtual items 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. We evaluated and tested, 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;</p>



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>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 the relevant determination. These judgements and estimates included (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to 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.</p>	<p>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 items, the games profile, the target audience, marketing strategy, 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.</p> <p>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.</p> <p>We and our internal IT specialist, 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.</p> <p>We also considered whether the judgements made in determinations of estimates of lifespan of in-game virtual items would give rise to indicators of possible management bias.</p> <p>Based on the procedures performed, we considered that the significant judgements and estimates adopted by management in the assessment of lifespan of in-game virtual items are supported by the evidence obtained.</p>



INDEPENDENT AUDITOR'S REPORT

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 is responsible for overseeing the Group's financial reporting process.



INDEPENDENT AUDITOR'S REPORT

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.



INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 Jack Li.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 28, 2023



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,	
		2022 RMB'000	2021 RMB'000
Revenues	5	630,367	1,105,816
Cost of revenues	6	(208,280)	(293,217)
Gross profit		422,087	812,599
Selling and marketing expenses	6	(209,302)	(304,236)
Research and development expenses	6	(113,345)	(91,228)
General and administrative expenses	6	(71,783)	(86,886)
Net impairment losses on financial assets	6	10	140
Fair value changes on investments measured at fair value through profit or loss	8	36,802	5,030
Other income	9	6,009	11,085
Other gains/(losses), net	10	16,110	(9,354)
Operating profit		86,588	337,150
Finance income		8,792	2,046
Finance costs		(2,034)	(858)
Finance income, net	11	6,758	1,188
Fair value changes of convertible redeemable preferred shares	29	-	(691,052)
Share of results of investments accounted for using equity method	17	(309)	5,377
Losses on impairment of investments accounted for using the equity method	17	(14,502)	-
Losses from financial instruments issued to investors	28	-	(53,928)
Profit/(loss) before income tax		78,535	(401,265)
Income tax (expenses)/benefit	12	(32,879)	32,627
Profit/(loss) for the year		45,656	(368,638)
Other comprehensive income/(loss):			
Items that may not be reclassified to profit or loss			
- Currency translation differences		99,822	26,315
Total comprehensive income/(loss) for the year		145,478	(342,323)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,	
		2022 RMB'000	2021 RMB'000
Profit/(loss) for the year attributable to:			
Equity holders of the Company		50,283	(367,231)
Non-controlling interests		(4,627)	(1,407)
		45,656	(368,638)
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the Company		150,198	(340,916)
Non-controlling interests		(4,720)	(1,407)
		145,478	(342,323)
Earnings/(loss) per share for profit for the year attributable to the equity holders of the Company			
Basic and diluted earnings/(loss) per share (RMB)	13	0.07	(0.96)

The notes on pages 138 to 235 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31,	
		2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	19,005	8,446
Right-of-use assets	15	26,168	32,063
Deferred tax assets	16	27,861	40,175
Investments accounted for using the equity method	17	19,858	29,169
Long-term investments measured at fair value through profit or loss	19	200,223	136,252
Prepayments, deposits and other assets	20	9,678	6,915
		302,793	253,020
Current assets			
Trade receivables	21	52,341	48,211
Inventories		78	279
Prepayments, deposits and other assets	20	60,978	44,004
Short-term investments measured at fair value through profit or loss	22	489,717	355,313
Restricted cash	23(b)	8,573	–
Cash and cash equivalents	23(a)	1,001,922	1,168,076
		1,613,609	1,615,883
		1,916,402	1,868,903
EQUITY			
Share capital	24	44	44
Share premium	24	5,117,821	5,151,253
Other reserves	25	(2,932,121)	(3,032,555)
Accumulated deficit		(422,317)	(472,600)
Equity attributable to equity holders of the Company		1,763,427	1,646,142
Non-controlling interests		(4,527)	193
Total equity		1,758,900	1,646,335

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31,	
		2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	27	16,596	22,735
Financial instruments issued to investors	28	–	–
		16,596	22,735
Current liabilities			
Trade payables	30	10,078	5,745
Other payables and accruals	31	67,640	103,346
Contract liabilities	26	41,283	74,918
Current income tax liabilities		11,278	5,997
Lease liabilities	27	10,207	9,827
Short-term liabilities measured at fair value through profit or loss	22	420	–
		140,906	199,833
Total liabilities		157,502	222,568
Total equity and liabilities		1,916,402	1,868,903

The notes on pages 138 to 235 are an integral part of these consolidated financial statements.

The financial statements on pages 131 to 235 were approved by the Board of Directors on March 28, 2023 and were signed on its behalf.

Huang Zhiqiang
Director

Liu Siming
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company						Total RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated deficit) RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
As at January 1, 2021		-	-	139,572	74,631	214,203	-	214,203
Comprehensive loss								
Loss for the year		-	-	-	(367,231)	(367,231)	(1,407)	(368,638)
Other comprehensive income								
- Currency translation differences		-	-	26,315	-	26,315	-	26,315
Total comprehensive loss for the year		-	-	26,315	(367,231)	(340,916)	(1,407)	(342,323)
Transaction with owners in their capacity as owners								
Dividend distribution to the then shareholders	32	-	-	-	(180,000)	(180,000)	-	(180,000)
Changes in the carrying amount of financial instruments issued to investors	28	-	-	(251,564)	-	(251,564)	-	(251,564)
Effect of Share Exchange	29	-	-	(633,303)	-	(633,303)	-	(633,303)
Effect of Reorganization of the Group	24	1	2,313,575	(2,313,575)	-	1	-	1
Conversion of Preferred Shares to ordinary share	24	-	2,093,797	-	-	2,093,797	-	2,093,797
Capitalization Issue	24	38	(38)	-	-	-	-	-
Issuance of ordinary shares upon Initially public offering	24	5	743,919	-	-	743,924	-	743,924
Capital contribution of non-controlling interest		-	-	-	-	-	1,600	1,600
Total transactions with owners in their capacity as owners for the year		44	5,151,253	(3,198,442)	(180,000)	1,772,855	1,600	1,774,455
As at December 31, 2021		44	5,151,253	(3,032,555)	(472,600)	1,646,142	193	1,646,335



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company						Total RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated deficit) RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
As at January 1, 2022		44	5,151,253	(3,032,555)	(472,600)	1,646,142	193	1,646,335
Comprehensive income								
Profit/(loss) for the year		-	-	-	50,283	50,283	(4,627)	45,656
Other comprehensive income								
- Currency translation differences		-	-	99,915	-	99,915	(93)	99,822
Total comprehensive income for the year		-	-	99,915	50,283	150,198	(4,720)	145,478
Transaction with owners in their capacity as owners								
Share-based payment	7	-	-	519	-	519	-	519
Issuance of ordinary shares upon IPO over-allotment	24	-	55,888	-	-	55,888	-	55,888
Dividend distribution to the shareholders	32	-	(89,320)	-	-	(89,320)	-	(89,320)
Total transactions with owners in their capacity as owners for the year		-	(33,432)	519	-	(32,913)	-	(32,913)
As at December 31, 2022		44	5,117,821	(2,932,121)	(422,317)	1,763,427	(4,527)	1,758,900

The notes on pages 138 to 235 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31,	
		2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	(6,911)	207,450
Income tax paid		(13,276)	(7,506)
Net cash generated from operating activities		(20,187)	199,944
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(14,413)	(5,920)
Purchase of short-term financial assets at fair value through profit and loss	22	(796,308)	(603,851)
Redemption of short-term financial assets at fair value through profit and loss	22	738,454	252,410
Purchase of long-term investments measured at fair value through profit or loss	19	(70,000)	(56,000)
Payment of deposits for foreign exchange forward contracts	23(b)	(19,694)	–
Repayment of deposits for foreign exchange forward contracts	23(b)	11,121	–
Purchase of investments accounted for using the equity method	17	(6,000)	(12,109)
Loan repayment from related parties and third parties (including interests)		–	367
Dividends from long-term investments measured at fair value through profit or loss		79	8
Net cash used in investing activities		(156,761)	(425,095)
Cash flows from financing activities			
Capital contributions from the then shareholders	24	–	1
Capital injection from non-controlling interest		–	1,600
Issuance of convertible redeemable preferred shares	29	–	401,000
Issuance of ordinary shares upon Initially public offering	24	–	743,924
Issuance of ordinary shares upon IPO over-allotment	24	55,888	–
Dividend paid to the then shareholders of a subsidiary	32	–	(180,000)
Dividend distribution to the shareholders	32	(89,320)	–
Payment for lease liabilities (including interests)	15	(11,536)	(5,178)
Listing expense payment		(1,214)	(3,917)
Net cash (used in)/generated from financing activities		(46,182)	957,430
Net increase in cash and cash equivalents		(223,130)	732,279
Cash and cash equivalents at the beginning of the year		1,168,076	443,248
Effects of exchange rate changes on cash and cash equivalents		56,976	(7,451)
Cash and cash equivalents at the end of the year	23(a)	1,001,922	1,168,076

The notes on pages 138 to 235 are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

1.1 General information

Qingci Games Inc. (the “Company”) is an exempted company with limited liability incorporated under the laws of the Cayman Islands on March 12, 2021. The Company is an investment holding company. The Company and its subsidiaries, including consolidated structured entities (together, the “Group”) are principally engaged in the development and operation of mobile games and provision of information services (the “Listing Business”) in the People’s Republic of China (the “PRC”) and other areas. 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 Province of the PRC.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since December 16, 2021.

1.2 History and reorganisation of the Group

Prior to the incorporation of the Company and the completion of the reorganization (the “Reorganization”) as described below, the Listing Business was mainly carried out by QC-Game Digital Technology (Xiamen) Co., Ltd (“QC Digital”) and its subsidiaries (collectively the “QC Digital Group”), amongst which, 13.33% of the shares of the QC Digital were in the form of ordinary shares with preferential rights which was recognized at financial instruments issued to investors and 86.67% of the share of the QC Digital were in the form of ordinary shares which was recognized in the equity.

In preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganization, pursuant to which the beneficial interests in the companies engaged in the Listing Business were transferred to the Company. Details of the Reorganization are set out below:

1.2.1 Incorporation of the Company and the offshore holding structure

On March 12, 2021, the Company was incorporated in the Cayman Islands with an authorized share capital of US\$50,000 divided into 5,000,000,000 shares of a par value of US\$0.00001 each. Upon incorporation, one share was allotted and issued for cash at par value to the initial subscriber and was subsequently transferred to Keiskei QC Ltd., the holding vehicle of Mr. Yang Xu, the founder, chairman and executive Director of our Group.

On April 1, 2021, Qingci Holding Limited (“Qingci Holding”) was incorporated in the British Virgin Islands (“BVI”) as a wholly owned subsidiary of the Company.

On April 22, 2021, Qingci (HK) Limited (“QC HK Limited”) was incorporated in Hong Kong as a wholly owned subsidiary of the Qingci Holding.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

1.2.1 Incorporation of the Company and the offshore holding structure (continued)

In April 2021, the shareholders of QC Digital went through a share transfer as disclosed in Note 29. After the share transfer, 33.21% of the share were in the form of ordinary shares with preferential rights and 66.79% of the share were in the form of ordinary shares.

On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 9,530,575 ordinary shares of the Company were allotted and issued at par value US\$0.00001 each share to 9 offshore ordinary shareholders, 4,739,938 redeemable and convertible preferred shares (“Series A Preferred Shares”) of the Company were issued to Series A investors (Note 29).

On May 26, 2021, 1,152,488 redeemable and convertible preferred shares (“Series B Preferred Shares”) of the Company were allotted and issued at par value US\$0.00001 each share to Series B Investors (Note 29).

1.2.2 Acquisition of QC Digital Group with restricted operation

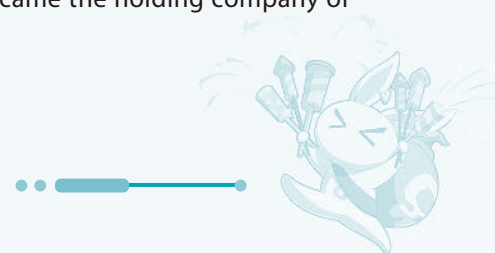
On May 10, 2021, QC Interactive Technology Co., Ltd (廈門青瓷互動科技有限公司, the “WFOE”) was incorporated in the PRC as a wholly owned subsidiary of the QC HK Limited.

On May 26, 2021, WFOE entered into a series of contractual agreements (collectively the “Contractual Arrangements”) with QC Digital and the shareholders of QC Digital. Pursuant to the Contractual Arrangements, WFOE is able to effectively control the operating and financing decisions of QC Digital and its PRC subsidiaries with restricted operation (collectively “the PRC Consolidated Affiliated Entities”) and receives substantially all the economic benefits generated by the PRC Consolidated Affiliated Entities. Accordingly, the PRC Consolidated Affiliated Entities are treated as controlled structured entities of the Company and consolidated by the Company. Further details of the Contractual Arrangements are set out in Note 2.2.1.

1.2.3 Restructuring of the non-restricted and/or non-prohibited operation

As part of the Reorganization, the business which are not subject to any foreign investment restrictions or prohibition were transferred from QC Digital Group to Qingci Holding. Accordingly, on May 11, 2021, QC Digital transferred 100% equity interests of QC-Game Digital Technology (HongKong) Co., Limited (“QC HK”), to Qingci Holding and QC HK became a wholly owned subsidiary of Qingci Holding.

Upon completion of the Reorganization, the Company became the holding company of the companies now comprising the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

As at December 31, 2022, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ registered capital	Effective interest held As at December 31,		Principal activities and place of operation
				2021	2022	
Subsidiaries						
Directly held:						
Qingci Holding Limited ("Qingci Holding")	British Virgin Islands, limited liability company	April 2021	USD1	100%	100%	Investment holding, British Virgin Islands
Indirectly held:						
Qingci (HK) Limited	Hong Kong, limited liability company	April 2021	HKD100	100%	100%	Investment holding, Hong Kong
QC Interactive Technology Co., Ltd (廈門青瓷互動科技有限公司, the "WFOE")	Xiamen, China, limited liability company	May 2021	RMB100,000,000	100%	100%	Management consultation, Xiamen, China
Qingji Limited (青集有限公司)	Hong Kong, limited liability company	July 2021	HKD100	100%	100%	Management consultation, Hong Kong
QC-Game Digital Technology (Hongkong) Co., Limited (香港青瓷數碼技術有限公司, "QC HK")	Hong Kong, limited liability company	October 2019	USD1,000,000	100%	100%	Game operation, Hong Kong
Qingyu Limited (青予有限公司)	Hong Kong, limited liability company	February 2022	HKD10,000	NA	80%	Game operation, Hong Kong
QCPlay Inc.*	Japan, limited liability company	May 2021	JPY50,000,000	100%	100%	Game operation, Japan
BARLEY PLAY PTE. LTD.	Singapore, limited liability company	February 2022	USD1,000	NA	100%	Game operation, Singapore



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ registered capital	Effective interest held As at December 31,		Principal activities and place of operation
				2021	2022	
Shanghai Qingsi Management Consulting Co., Ltd. (上海青司管理諮詢有限公司)	Shanghai, China, limited liability company	October 2021	RMB150,000,000	100%	100%	Management consultation, Shanghai, China
Hainan Qingci Information Consulting Co., Ltd. (海南青瓷信息諮詢有限公司)	Hainan, China, limited liability company	October 2021	RMB5,000,000	100%	100%	Consultation, Hainan, China
Hainan Qingying Information Consulting Co., Ltd. (海南青影信息諮詢有限公司)	Hainan, China, limited liability company	October 2021	RMB10,000,000	100%	100%	Consultation, Hainan, China
Shanghai Qingxin Management Consulting Co., Ltd. (上海青歆管理諮詢有限公司)	Shanghai, China, limited liability company	September 2022	RMB10,000,000	NA	100%	Consultation, Shanghai, China
Shanghai Qingci Culture Media Co., Ltd. (上海清賜文化傳媒有限公司)	Shanghai, China, limited liability company	July 2021	RMB100,000	100%	NA	Game operation, Shanghai, China



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

1.2 History and reorganisation of the Group (continued)

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ registered capital	Effective interest held As at December 31,		Principal activities and place of operation
				2021	2022	
Structured entities controlled via the Contractual Arrangements:						
QC-Game Digital Technology (Xiamen) Co., Ltd (廈門青瓷數碼技術有限公司)	Xiamen, China, limited liability company	March 2012	RMB14,270,513	100%	100%	Game development and operation, Xiamen, China
QC-Game Cultural Communication (Xiamen) Co., Limited (廈門青瓷文化傳播有限公司)	Xiamen, China, limited liability company	August 2014	RMB10,000,000	100%	100%	Game development and operation, Xiamen, China
QC Chengdu Interactive Co., Limited (成都青瓷互動網絡科技有限公司)	Chengdu, China, limited liability company	August 2021	RMB5,000,000	100%	100%	Game operation, Chengdu, China
QC Chengdu Media Co., Limited (成都青瓷傳媒有限公司)	Chengdu, China, limited liability company	August 2021	RMB2,000,000	60%	60%	Game operation, Chengdu, China
QC Chengdu Software Co., Limited (成都青瓷軟件技術有限公司)	Chengdu, China, limited liability company	August 2021	RMB2,000,000	60%	60%	Game operation, Chengdu, China
Xiamen Qingyi Network Technology Co., Ltd. (廈門青亦網絡科技有限公司)	Xiamen, China, limited liability company	April 2022	RMB10,000,000	NA	100%	Game development and operation, Xiamen, China

The English names of certain subsidiaries referred herein represent the directors' best effort at translating the Chinese names of these companies as no English names have been registered.

All companies comprising the Group have adopted December 31 as their financial year end date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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 and liabilities measured 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 January 1, 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 37	Onerous contract – cost of fulfilling a contract
Annual Improvements	Improvements to IFRS Standards 2018–2020

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(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 January 1, 2022 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 8	Definition of Accounting Estimates	January 1, 2023
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IAS 12 (i)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as current and non-current	January 1, 2024
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to IAS 28 and IFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

- (i) The Group considers the lease as a single transaction in which the assets and liabilities are integrally linked. There is no net temporary difference at inception. Subsequently, when differences on settlement of the liabilities and the depreciation of right-of-use assets arise, there will be a net temporary difference on which deferred income tax is recognised. From the effective date of Amendments to IAS 12 on January 1, 2023, the Group will need to recognise a deferred income tax asset and a deferred income tax liability for the temporary differences arising on a lease on initial recognition.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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 income statements, consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of financial position respectively.

2.2.1 Subsidiaries controlled through Contractual Arrangements

The wholly-owned subsidiary of the Company, the WFOE, has entered into the Contractual Arrangements with QC Digital, which enable the WFOE and the Group to:

- exercise power to direct the PRC Consolidated Affiliated Entities' relevant activities;
- 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 QC Digital 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 QC Digital shall return the amount of purchase consideration they have received to the WFOE. At the WFOE's request, the registered equity holders of QC Digital will promptly and unconditionally transfer their respective equity interests in QC Digital 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 QC Digital from its registered equity holders to secure performance of their obligations under the Contractual Arrangements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Subsidiaries controlled through Contractual Arrangements (continued)

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.

2.2.2 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.2 Business combination (continued)

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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. 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 "Losses on impairment of investments accounted for using the equity method" in the consolidated income statements.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

2.6.2 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 statements of comprehensive income on a net basis within “Other 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 statements of comprehensive income as part of the “Fair value changes on investments measured at fair value through profit or loss”.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (continued)

2.6.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary 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 income statement and 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 statements 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 | 5 years |
| • Furniture and appliances | 5 years |
| • Vehicles | 5 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (continued)

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

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.

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 statements of comprehensive income.

2.8 Intangible assets

Intangible assets mainly include game license, 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.

2.9 Impairment of non-financial assets

Non-financial 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.

Game licenses and prepayments for game licenses and sharing of proceeds are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Group regularly assesses the possibility whether relevant games could be successfully published based on all available information, including market trend, testing results, and business performance of comparable games, if applicable, to assess impairment indicator of those prepayments (Note 20).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

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 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.

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 "Fair value changes on investments measured at fair value through profit or loss" in the period in which it arises.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

2.10.3 Measurement (continued)

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

Trade receivables and other receivables are subject to IFRS 9's new expected credit loss model. While cash and cash equivalents, restricted cash and Short-term investments measured at fair value through profit or loss are also subject to the impairments requirements of IFRS 9, the identified impairment losses were immaterial.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at 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 lifetime 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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note 3.3.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. As the derivative financial instruments do not qualify for hedge accounting treatment, the resulting gain or loss is recognized in profit or loss immediately.

The Group's derivative financial instruments mainly represented foreign exchange forward contracts within one year. The Group presents these contracts as current financial assets at FVPL or current financial liabilities at FVPL according to the fair value position of foreign exchange forward contracts at each period end.

2.12 Financial instruments issued to investors

Financial instruments issued to investors represented issuance of ordinary shares with certain preferential rights to certain investors of QC Digital. According to the agreement, the ordinary shares will become redeemable by the holder under certain events which are out of the Group's control.

As the Group does not have the unconditional right to avoid delivering cash or another financial assets to settle contractual obligation, the Group recognized a financial liability which recognized initially at the present value of the redemption amount. The financial liabilities are subsequently measured at amortized cost. Interests from the financial instruments are charged in "Losses from financial instruments issued to investors". Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate, and the adjustments will be recognized as "Losses from financial instruments issued to investors" (Note 28). The redemption liabilities are classified as current liabilities unless the preferential rights can only be exercised after 12 months after the end of each reporting period.

2.13 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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.

2.15 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, deposits held by financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.16 Inventories

Inventories are mainly merchandise and are stated at the lower of cost and net realizable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventories are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Share capital

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

2.18 Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition. Trade payables are presented 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Convertible redeemable preferred shares

Preferred shares issued by the Company (“Preferred Shares”) are redeemable upon occurrence of certain future events. These instruments are also attached with a conversion option.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs. The component of fair value changes relating to the Company’s own credit risk is recognized in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Other fair value changes relating to market risk are recognized in profit or loss.

The Preferred Shares were classified as non-current liabilities unless the Preferred Shares holders can demand the Company to redeem the Preferred Shares within 12 months after the end of the reporting period.

2.20 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.

2.20.1 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

2.20.2 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.

2.20.3 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

2.20.4 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.

2.21 Employee benefits

2.21.1 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.

2.21.2 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.

2.21.3 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

2.21.4 Share-based payment

The Group receives services from employees, directors who has contributed or will contribute to the Group as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognized as an expense in the consolidated statements of comprehensive income with a corresponding increase in equity.

In terms of the shares, the total amount to be expensed is determined by reference to the fair value of equity instruments 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-market 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 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.

2.23 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:

The Group is a publisher of mobile games developed by itself or game developers. The Group publishes its self-developed mobile games or licensed mobile games from game developers and earns game operating revenue by publishing them to the game players through distribution channels, e.g. online application stores (such as Apple Inc.'s App Store ("Apple App") and Android based App Stores ("Android App")), as well as web-based and mobile game portals, including the Group's own websites. (collectively referred to as "Distribution Channels").

The games published by the Group are operated under 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 via payment channels, such as the third-party internet payment systems (the "Payment Channels").



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

2.23.1 Game operating revenue

When the Group publishes mobile games developed by game developers, 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 and 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 for the goods or service provided to the customer 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 latitude in establishing the prices for the specified goods or services; (iv) has discretion in selection of suppliers.

During the reporting period, the Group takes primary responsibilities in game operation. The Group considered itself as a principal in game operating arrangements and recorded game operating revenues on a gross basis.

Under the arrangements that the Group takes primary responsibilities, the Group considered that (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 licensed games, the Group has power to determine game content and to provide 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 charge of game downloading (if needed), 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 to provide goods or service to game players. 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 (if any) are recorded as cost of revenues.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

2.23.1 Game operating revenue (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, 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. The paying players will not continue to benefit from the virtual items thereafter. Revenue is recognised (as a release from contract liabilities) when the items are consumed and the related services are rendered.

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 the games profile, target audience, and its appeal to players of different demographics groups 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.

2.23.2 Game licensing revenue

The Group derives revenue from licensing its self-developed games to game publishers, who operate the Group's mobile games in defined regions or countries within a specific period. The licensing fees normally comprise of non-refundable fixed licensing fees (either up-front or under specific payment schedule) and variable licensing fees calculated based on prescribed terms.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

2.23.2 Game licensing revenue (continued)

The Group has evaluated the respective roles and responsibilities of the Group and game publishers in the delivery of game experience to players and concluded that game publishers have the primary responsibility in these licensing arrangements as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore have exposure to the significant risks and rewards associated with the operation of these games under the licensing arrangements. Accordingly, the variable licensing fees (revenue share), which are calculated based on a prescribed percentage of the proceeds received from game publishers, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed licensing fees are initially recorded as contract liabilities and are then recognized as revenue rateably over the license period as the licensing arrangements are considered to be right-to-access licensing arrangements.

2.23.3 Information service revenue

Information service revenue mainly represents revenue generated from in-game marketing and promotion services, which mainly comprises revenues derived from performance based in-game marketing and promotion services provided by the Group. Performance based marketing and promotion contracts are signed between the Group and advertisers or their agencies to establish the service to be provided by the Group and relevant performance measures.

Revenue from performance-based in-game marketing and promotion service is recognized when relevant actual performance measures of in-game marketing and promotion services are fulfilled, such as delivery of download, purchase or registration etc.

2.23.4 Other revenue

The Group also generates revenue from providing technical supporting services and selling game-related merchandise. Revenue is recognized when the service is rendered or related merchandise are delivered and accepted by customers.

2.23.5 Practical expedients applied

The Group generally expenses contract acquisition cost when incurred because the amortization period would have been 1 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Contract liabilities

Contract liabilities primarily consists of i) 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 ii) the unamortised balance of the initial license fee paid by licensees.

2.25 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 term deposits is included in "Interest income".

2.26 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 recognized in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.27 Leases

The Group leases offices properties, land and buildings, and servers and other equipment as lessee. Rental contracts are typically made for fixed periods of 1 to 5 years. 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Leases (continued)

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 cannot be readily determined, which is generally the case for leases of the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in consolidated statements 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 at the date of initial adoption of IFRS 16.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Leases (continued)

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 contracts, and instead account for each lease component and any associated non-lease components as a single lease component.

2.28 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.

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

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 RMB13.26 million and RMB11.11 million, higher/lower for the years ended December 31, 2021 and 2022 respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD. Above sensitivity analysis does not include the Group's outstanding foreign forward contracts. Details of the Group's outstanding foreign forward contracts are set out in Note 3.3(a).

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimize these exposures through natural hedges, wherever possible and may enter into forward foreign exchange contracts, when necessary.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

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 or liabilities except for cash and cash equivalents and lease liabilities, and details of which have been disclosed in Note 23(a) and Note 27 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 at fair value*

To manage risk arising from cash and cash equivalents and short-term investments, the Group only transacts with state-owned or reputable financial institutions. 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, as well as due from information service customers. If the strategic relationship with Distribution Channels, game publishers and information service customers are terminated or scaled-back, or if they 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, game publishers and information service customers to ensure the effective credit control. In view of the history of cooperation with Distribution Channels, game publishers and information 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 is low.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(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 forward-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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Credit risk of deposits and other assets (continued)

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 or repaying on demand.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 180 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 counterparties 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 low and has not increased significantly since initial recognition. Based on the assessment, the directors believe that allowance for impairment of deposits and other assets is immaterial to the Group.

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.

(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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for: i) all non-derivative financial liabilities and ii) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Over 5 year RMB'000	Total RMB'000
As at December 31, 2022					
Non-derivatives					
Trade payables	10,078	-	-	-	10,078
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	6,163	-	-	-	6,163
Lease liabilities	10,588	6,963	11,439	-	28,990
	26,829	6,963	11,439	-	45,231
Derivatives					
Short-term liabilities measured at fair value through profit or loss - foreign forward contracts	420	-	-	-	420
As at December 31, 2021					
Non-derivatives					
Trade payables	5,745	-	-	-	5,745
Other payables and accruals (excluding salaries and benefits payable, and other tax payables)	19,833	-	-	-	19,833
Lease liabilities	9,886	9,904	15,885	-	35,675
	35,464	9,904	15,885	-	61,253



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's risk associated with capital management is low.

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 December 31, 2021 and 2022, 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).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required for evaluating the fair value of a financial instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments mainly include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of foreign currency forward contracts is determined using present value of future cash flows based on forward exchange rates at the balance sheet date;
- Other techniques, various applicable valuation techniques are used to determine fair value for financial instruments (Note 3.3(c)).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

As at December 31, 2021, none of the Group's financial liabilities are measured at fair value. The following table presents the Group's assets that are measured at fair value as at December 31, 2021 and the Group's assets and liabilities that are measured at fair value as at December 31, 2022.

	Notes	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at December 31, 2022					
Financial assets					
Short-term investments measured at fair value through profit or loss					
	22				
		-	-	482,577	482,577
		7,140	-	-	7,140
Investments in unlisted companies and private equity funds					
	19				
		-	-	52,565	52,565
		-	-	147,658	147,658
		7,140	-	682,800	689,940
Financial liabilities					
Derivative financial instruments - Foreign currency forward contracts (iii)					
	22	-	420	-	420
As at December 31, 2021					
Short-term investments measured at fair value through profit or loss					
	22				
		-	1,072	354,241	355,313
Investments in unlisted companies and private equity funds					
	19				
		-	-	58,997	58,997
		-	-	77,255	77,255
		-	1,072	490,493	491,565



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

- (i) *Investment funds' principal and returns are not guaranteed. The Group invested in investment funds which holds a combination of term deposits, securities and futures. Level 2 investment funds were all invested in publicly traded equity and debt instruments and the fair value of which were recognized based on the periodic fair value reports from investment funds. Fair value of Level 3 investment funds were determined by using applicable valuation techniques as disclosed in Note 3.3(c). 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 statements of comprehensive income.*
- (ii) *This presents investments in listed companies' equity security.*
- (iii) *The Group entered into foreign exchange forward contracts to manage its foreign currency exposure. The outstanding notional amount of foreign exchange forward contracts as at December 31, 2022 was USD6.5 million that due in one year. Fair value gain amounting to RMB1.89 million for the year ended December 31, 2021 and fair value loss amounting to RMB4.31 million for the year ended December 31, 2022, were recognized in profit or loss, respectively. Changes in fair value of these foreign exchange forward contracts had been recognized in "Fair value changes on investments measured at fair value through profit of loss" in the consolidated statements of comprehensive income. No foreign exchange forward contract was outstanding as at December 31, 2021.*

(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, private equity funds, wealth management products issued by commercial banks and investment funds for the years ended December 31, 2021 and 2022. Details of the movements and significant unobservable inputs used in Convertible redeemable Preferred Shares are set out in Note 29.

Investments in unlisted companies and private equity funds

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	136,252	77,800
Additions	70,000	56,000
Changes in fair value	(6,029)	2,452
At the end of the year	200,223	136,252
Net unrealized (losses)/gains	(6,029)	2,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

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

Wealth management products issued by commercial banks and investment funds

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	354,241	–
Additions	788,449	603,851
Changes in fair value	48,201	670
Redemption	(741,310)	(250,275)
Currency translation impact	32,996	(5)
At the end of the year	482,577	354,241

(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:

- For investments in unlisted companies, their fair values have been determined using applicable valuation techniques including comparable companies approach and comparable transactions approach etc. These valuation approaches require significant judgments, assumptions and inputs, including expected volatility, discount for lack of marketability ("DLOM"), relevant underlying financial projections and recent transactions, etc. Independent external valuer has been involved presented in determining the fair value, when appropriate;



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(c) Valuation process and techniques (continued)

- For investments in private equity funds, the Group determines fair values as at the reporting date based on the fair value of underlying investments in unlisted companies invested by those private funds. For those underlying investments with recent transactions, management determines their fair value at the end of each reporting period by taking reference to those recent transaction prices; For those underlying investments with no recent transactions, their fair values have been determined using applicable valuation techniques including comparable companies approach and comparable transactions approach etc. Management established fair values of these underlying investments by using significant judgments, assumptions and inputs including expected volatility and DLOM, etc. Independent external valuer has been involved in determining the fair value, when appropriate;
- For investments in investment funds, the Group determines fair values as at the reporting date based on the periodic fair value reports of the respective funds provided by fund administrators and fund managers. The Group also discusses with the respective fund managers to understand the performance of the underlying investments and fair value measurement basis conducted by the respective fund administrators and fund managers, obtains and reviews latest available financial information (if applicable), in order to assess whether the fair values as stated in the periodic fair value reports at the end of each reporting period are appropriate.

There were no change to valuation techniques during the reporting period. Details of the movements and significant unobservable inputs and major assumptions used in the valuation for Convertible redeemable Preferred Shares are presented in Note 29.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(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 December 31,		Unobservable inputs	Range of inputs as at December 31,		Relationship of unobservable inputs to fair value
	2022 RMB'000	2021 RMB'000		2022	2021	
Investments in unlisted companies	147,658	77,255	Expected volatility	49.74%-54.61%	51.60%-57.75%	The higher the expected volatility, the higher the fair value
			DLOM	30.00%	30.00%	The higher the DLOM, the lower the fair value
Investments in private equity funds ⁽ⁱⁱ⁾	52,565	58,997	Expected volatility	40.31%-44.79%	42.87%-58.04%	The higher the expected volatility, the higher the fair value
			DLOM	14.00%-30.00%	20.00%-30.00%	The higher the DLOM, the lower the fair value
Investment funds ⁽ⁱⁱ⁾	482,577	354,241	Periodic fair value report	N/A	N/A	N/A



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(d) Valuation inputs and relationship to fair value (continued)

If expected volatility is 10% higher, the fair value of investments in unlisted companies and private equity funds will be RMB1.04 million and RMB0.88 million higher for the years ended December 31, 2021 and 2022 respectively, and the profit after tax will be RMB0.91 million and RMB0.77 million higher respectively;

If expected volatility is 10% lower, the fair value of investments in unlisted companies and private equity funds will be RMB0.88 million and RMB0.48 million lower for the years ended December 31, 2021 and 2022 respectively, and the profit after tax will be RMB0.77 million and RMB0.42 million lower respectively.

If DLOM is 10% higher/lower, the fair value of investments in unlisted companies and private equity funds will be RMB0.07 million and RMB0.21 million lower/higher for the years ended December 31, 2021 and 2022 respectively, and the profit after tax will be RMB0.06 million and RMB0.18 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 RMB37 thousand for the year ended December 31, 2021, and the profit before tax will be 32 thousand higher/lower. During the year ended December 31, 2022, The Group made no investment in wealth management products issued by commercial banks.

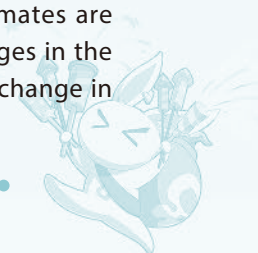
4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 Player Relationship Period in the Group's online game services

As described in Note 2.23, the Group recognizes certain revenue from sale of virtual items in online game services ratably over the Player Relationship Period. The determination of Player Relationship Period in each game is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for as a change in accounting estimate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine Distribution Channels and Payment Channels.

4.4 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.

4.5 Fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Details of the valuation models, key assumptions and inputs are disclosed in Note 29.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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 directors of the Company consider that the Group's operation is operated and managed as a single segment and no segment information is presented, accordingly.

As at December 31, 2021 and 2022, substantially all of the non-current assets of the Group were located in the PRC.

Revenue for the years ended December 31, 2021 and 2022 are as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Game operating revenues		
– Self-developed	557,559	790,938
– Licensed	34,380	259,785
Subtotal	591,939	1,050,723
Game licensing revenue	27,361	35,789
Information service revenue	9,625	19,304
Other revenue	1,442	–
Total revenues	630,367	1,105,816
Cost of revenues	(208,280)	(293,217)
Gross profit	422,087	812,599
Gross margin	67%	73%



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

5 SEGMENT INFORMATION AND REVENUE (CONTINUED)

Revenues of approximately RMB55 million and 33 million for the years ended December 31, 2021 and 2022, respectively, were from five largest single customers.

During the years ended December 31, 2021 and 2022, none of single customers individually exceeded 10% of the Group's revenue.

The table below sets forth a breakdown of the Group's revenue by timing of recognition for the years ended December 31, 2021 and 2022, respectively:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Service transferred overtime	318,125	560,065
Service and merchandise transferred at a point of time	312,242	545,751
	630,367	1,105,816

The table below sets forth a breakdown of the Group's game operating revenue by geographical areas for the years ended December 31, 2021 and 2022, respectively:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Mainland China	470,584	1,062,197
Other areas (a)	159,783	43,619
Total	630,367	1,105,816

(a) Revenue from other areas mainly include revenue from local versions operated in Japan, Hong Kong, Macau and Taiwan Province.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

6 EXPENSES BY NATURE

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Employee benefits expenses (Note 7)	216,266	145,732
Marketing and promotion expenses	147,272	273,673
Commissions charged by distribution channels	145,183	204,461
Bandwidth and server custody fee	20,734	21,862
Outsourced technical services	13,034	13,804
Professional services fee	12,221	3,487
Commissions charged by game developers	11,109	40,919
Depreciation of right-of-use assets (Note 15)	10,792	5,004
Office expenses	9,930	8,091
Auditor remuneration		
– Audit service	4,290	3,200
– Non-audit service	320	200
Depreciation of property, plant and equipment (Note 14)	3,771	1,387
Tax surcharges	2,274	2,882
Rental expenses and utilities	2,034	1,923
Commissions charged by payment channel	1,113	2,364
Net impairment losses on financial assets	(10)	(140)
Listing expenses	–	45,805
Others	2,367	773
Total	602,700	775,427

7 EMPLOYEE BENEFITS EXPENSES

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Wages, salaries and bonuses	190,362	131,678
Pension and other social security costs	18,857	9,540
Share-based compensation expenses (a)	519	–
Other benefits	6,528	4,514
Total	216,266	145,732

- (a) In February 2022, 20% shares of Qingyu Limited, a subsidiary of the Group, were granted to certain key employees of the Group to reward their contribution and performance in past years. The fair value of the granted shares of the subsidiary was recognized as share-based compensation expenses accordingly, amounting to approximately RMB0.5 million.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(a) Pension-defined contribution plans

During the year ended December 31, 2021 and 2022, 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 at December 31, 2022, to reduce the level of contributions.

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

	Year ended December 31, 2022					Total RMB'000
	Director fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Share-based compensation RMB'000	Other benefits RMB'000	
Chairman						
Yang Xu	-	14,682	79	-	-	14,761
Executive directors						
Huang Zhiqiang	-	10,421	79	-	-	10,500
Zeng Xiangshuo	-	5,169	79	-	-	5,248
Liu Siming	-	7,417	126	-	-	7,543
Independent non-executive directors						
Zhang Longgen	172	-	-	-	-	172
Lam Sing Kwong	172	-	-	-	-	172
Fang Weijin	172	-	-	-	-	172
Total	516	37,689	363	-	-	38,568



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Directors' and chief executive's emoluments (continued)

	Year ended December 31, 2021					Total RMB'000
	Director fees RMB'000	Wages, salaries and bonuses RMB'000	Pension and other social security costs RMB'000	Share-based compensation RMB'000	Other benefits RMB'000	
Chairman						
Yang Xu	-	2,704	43	-	-	2,747
Executive directors						
Huang Zhiqiang	-	3,171	43	-	-	3,214
Zeng Xiangshuo	-	1,654	43	-	-	1,697
Liu Siming	-	3,966	96	-	-	4,062
Independent non-executive directors						
Zhang Longgen	7	-	-	-	-	7
Lam Sing Kwong	7	-	-	-	-	7
Fang Weijin	7	-	-	-	-	7
Total	21	11,495	225	-	-	11,741

(i) Benefits and interests of directors

Except for disclosed above, there is no other benefit offered to the directors.

(ii) 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 December 31, 2021 and 2022.

(iii) 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 December 31, 2021 and 2022.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(b) Directors' and chief executive's emoluments (continued)

- (iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

During the year ended December 31, 2021 and 2022, there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

- (v) 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 year ended December 31, 2021 and 2022.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended December 31, 2021 and 2022, include 1 and 4 directors respectively, whose emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments for the remaining 4 and 1 individuals for each of the years ended December 31, 2021 and 2022 respectively, are set out below:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	1,507	1,885
Contribution to pension scheme	89	165
Discretionary bonuses	6,148	18,950
Inducement fee to join or upon joining the Group	–	–
Compensation for loss of office:		
– contractual payments	–	–
– other payment	–	–
Total	7,744	21,000



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(c) Five highest paid individuals (continued)

	Year ended December 31,	
	2022	2021
Emolument bands (in HKD)		
HKD4,500,001 – HKD5,000,000	–	2
HKD7,000,001 – HKD7,500,000	–	1
HKD8,000,001 – HKD8,500,000	–	1
HKD8,500,001 – HKD9,000,000	1	–
Total	1	4

8 FAIR VALUE CHANGES ON INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Fair value changes on long-term investments measured at fair value through profit or loss (Note 19)	(6,029)	2,452
Fair value changes on short-term investments measured at fair value through profit or loss (Note 22)	47,139	683
Fair value changes on derivative instruments (Note 22)	(4,308)	1,895
Total	36,802	5,030



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

9 OTHER INCOME

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Government subsidies	5,930	11,085
Dividend distribution from long-term investments measured at fair value through profit or loss	79	–
Total	6,009	11,085

There are no unfulfilled conditions or contingencies related to the above government subsidies.

10 OTHER GAINS/(LOSSES), NET

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Foreign exchange gain/(loss), net	20,583	(7,165)
Donations to charity organizations	(3,411)	(2,587)
Others	(1,062)	398
Total	16,110	(9,354)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

11 FINANCE INCOME, NET

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Finance income		
Interest income from bank deposits	8,792	2,046
Finance costs		
Interest expenses on lease liabilities	(1,470)	(673)
Bank charges	(564)	(185)
Finance income, net	6,758	1,188

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 has been provided at the rate of 16.5% on the estimated assessable profit in respect of operations in Hong Kong.

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 December 31, 2021 and 2022.

Certain subsidiaries of the Group in the PRC, accordingly, are qualified as "high and new technology enterprise" and entitled to a preferential income tax rate of 15% during the years ended December 31, 2021 and 2022.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

12 INCOME TAX (CONTINUED)

PRC corporate income tax (“CIT”) (continued)

Certain subsidiaries are accredited as a “software enterprise” under the relevant PRC Laws and regulations. They are exempted 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 2018 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 December 31, 2021 and 2022.

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 January 1, 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5% in certain circumstances.

Since the Group intends to permanently reinvest earnings from QC Digital Group to further expand its businesses in PRC after the Reorganization, it does not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, no deferred income tax liability in relation with WHT was accrued as at the end of each reporting period. Cumulative undistributed earnings of the Company’s PRC subsidiaries intended to be permanently reinvested were 278 million as at December 31, 2022.

The income tax of the Group for the years ended December 31, 2021 and 2022 is analyzed as follows:

	Year ended December 31,	
	2022 RMB’000	2021 RMB’000
Current income tax	20,437	4,988
Deferred income tax (Note 16)	12,442	(37,615)
Total income tax expenses/(benefit)	32,879	(32,627)

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 December 31, 2021 and 2022, being the statutory tax rate of the major subsidiaries of the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

12 INCOME TAX (CONTINUED)

PRC Withholding Tax (“WHT”) (continued)

The difference is analysed as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Profit/(loss) before income tax	78,535	(401,265)
Tax calculated at statutory income tax rate of 25% in mainland China	19,634	(100,316)
Tax effects of:		
Effect of different tax rates available to different jurisdictions	2,175	176,513
Preferential income tax rates applicable to subsidiaries	(16,353)	(108,448)
Expenses not deductible for income tax purposes	887	440
Non-taxable income	(12,234)	–
Tax effect of losses from financial instruments issued to investors (Note 28)	–	13,482
Super Deduction for research and development expenses	(9,529)	(15,874)
Tax losses for which no deferred income tax assets were recognized	33,821	246
Temporary differences for which no deferred income tax assets were recognized, net	6,409	1,330
Previous years tax adjustments	8,069	–
Total income tax expenses/(benefit)	32,879	(32,627)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

13 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders of the Company by the weighted average number of outstanding shares during the years ended December 31, 2021 and 2022.

For the purpose of computing basic and diluted earnings/(loss) per share, 9,530,575 ordinary shares issued in the Reorganisation were assumed to have been issued and allocated from the beginning of the periods presented as if the Company has been established by then. The weighted average number of ordinary shares for such purpose has been retrospectively adjusted.

Redeemable shares that are contingently returnable are not treated as outstanding and are excluded from the calculation of basic earnings/(loss) per share.

	Year ended December 31,	
	2022	2021
Profit/(loss) attributable to ordinary shareholders of the Company (RMB'000)	50,283	(367,231)
Weighted average number of outstanding ordinary shares	691,139,718	384,309,042
Basic earnings/(loss) per share (RMB)	0.07	(0.96)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

13 EARNINGS/(LOSS) PER SHARE (CONTINUED)

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of outstanding ordinary shares to assume conversion of all dilutive potential ordinary shares.

For the year ended December 31, 2021, the Company had convertible redeemable preferred shares (Note 29) that are potential ordinary shares, diluted loss per share presented is the same as the basic loss per share as the inclusion of potential ordinary shares in the calculation of diluted loss per share would be anti-dilutive.

For the year ended December 31, 2022, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from IPO over-allotment option (the "OAO").

	Year ended December 31, 2022
Profit attributable to equity holders of the Company (RMB'000)	50,283
Weighted average number of shares in issue	691,139,718
Adjustments for OAO	4,815
Weighted average number of shares for the calculation of diluted earnings per share	691,144,533
Diluted earnings per share (RMB)	0.07



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

14 PROPERTY, PLANT AND EQUIPMENT

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Total RMB'000
At January 1, 2021				
Cost	1,170	3,012	2,140	6,322
Accumulated depreciation	(1,170)	(1,221)	–	(2,391)
Net book amount	–	1,791	2,140	3,931
Year ended December 31, 2021				
Opening net book amount	–	1,791	2,140	3,931
Additions	–	2,412	3,508	5,920
Depreciation (<i>Note 6</i>)	–	(573)	(814)	(1,387)
Disposal	–	(18)	–	(18)
Closing net book amount	–	3,612	4,834	8,446
At December 31, 2021				
Cost	1,170	5,110	5,648	11,928
Accumulated depreciation	(1,170)	(1,498)	(814)	(3,482)
Net book amount	–	3,612	4,834	8,446



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Servers and other equipment RMB'000	Furniture and appliances RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At January 1, 2022					
Cost	1,170	5,110	5,648	-	11,928
Accumulated depreciation	(1,170)	(1,498)	(814)	-	(3,482)
Net book amount	-	3,612	4,834	-	8,446
Year ended December 31, 2022					
Opening net book amount	-	3,612	4,834	-	8,446
Additions	-	3,852	1,081	9,480	14,413
Depreciation (Note 6)	-	(1,249)	(1,066)	(1,456)	(3,771)
Disposal	-	(77)	-	-	(77)
Currency translation impact	-	(6)	-	-	(6)
Closing net book amount	-	6,132	4,849	8,024	19,005
At December 31, 2022					
Cost	1,170	8,962	6,729	9,480	26,341
Accumulated depreciation	(1,170)	(2,830)	(1,880)	(1,456)	(7,336)
Net book amount	-	6,132	4,849	8,024	19,005

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Cost of revenues	618	250
Selling and marketing expenses	792	312
Research and development expenses	1,639	669
General and administrative expenses	722	156
	3,771	1,387



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

15 RIGHT-OF-USE ASSETS

	Properties RMB'000
At January 1, 2021	
Cost	16,333
Accumulated depreciation	(5,939)
Net book amount	10,394
Year ended December 31, 2021	
Opening net book amount	10,394
Additions	26,673
Depreciation (<i>Note 6</i>)	(5,004)
Closing net book amount	32,063
At December 31, 2021	
Cost	43,006
Accumulated depreciation	(10,943)
Net book amount	32,063
At January 1, 2022	
Cost	43,006
Accumulated depreciation	(10,943)
Net book amount	32,063
Year ended December 31, 2022	
Opening net book amount	32,063
Additions	10,374
Depreciation (<i>Note 6</i>)	(10,792)
Disposal	(5,394)
Currency translation impact	(83)
Closing net book amount	26,168
At December 31, 2022	
Cost	46,224
Accumulated depreciation	(20,056)
Net book amount	26,168



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

15 RIGHT-OF-USE ASSETS (CONTINUED)

The consolidated statement of comprehensive income and the consolidated statement of cash flows contain the following amounts relating to leases:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets	10,792	5,004
Interest expenses	1,470	673
Expenses relating to short-term leases	2,034	1,923
The cash outflow for leases payment related to short-term lease as operating activities	1,411	2,667
The cash outflow for leases as financing activities	11,536	5,178

16 DEFERRED INCOME TAXES

The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

Deferred tax assets

	As at December 31,	
	2022 RMB'000	2021 RMB'000
The balance comprises temporary differences attributable to:		
– Right-of-use assets and lease liabilities	56	162
– Tax losses	6,201	13,000
– Short-term investments measured at fair value through profit or loss	63	–
– Marketing and promotion expenses	16,076	16,430
– Loss allowance for financial assets	8	13
– Contract liabilities	4,745	9,151
– Temporary difference related to payroll payables	1,085	2,259
Total gross deferred tax assets	28,234	41,015
Set-off of deferred tax liabilities pursuant to set-off provisions	(373)	(840)
Net deferred tax assets	27,861	40,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

16 DEFERRED INCOME TAXES (CONTINUED)

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Deferred tax assets:		
– to be recovered within 12 months	15,979	25,236
– to be recovered after 12 months	11,882	14,939
	27,861	40,175

Deferred tax liabilities

	As at December 31,	
	2022 RMB'000	2021 RMB'000
The balance comprises temporary differences attributable to:		
– Long-term investments measured at fair value through profit or loss	373	521
– Short-term investments measured at fair value through profit or loss	–	319
Total gross deferred tax liabilities	373	840
Set-off of deferred tax assets pursuant to set-off provisions	(373)	(840)
Net deferred tax liabilities	–	–



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

16 DEFERRED INCOME TAXES (CONTINUED)

Deferred tax assets

The movement on the gross deferred income tax assets is as follows:

	Tax losses RMB'000	Loss allowance for financial assets RMB'000	Short-term investments measured at fair value through profit or loss RMB'000	Marketing and promotion expenses RMB'000	Right-of- use assets and lease liabilities RMB'000	Contract liabilities RMB'000	Temporary difference related to payroll payables RMB'000	Total RMB'000
At January 1, 2021	434	7	46	-	-	583	1,743	2,813
Credited/(charged) to consolidated income statement	12,626	6	(46)	16,430	162	8,573	516	38,267
Currency translation impact	(60)	-	-	-	-	(5)	-	(65)
At December 31, 2021	13,000	13	-	16,430	162	9,151	2,259	41,015
Credited/(charged) to consolidated income statement	(6,927)	(5)	63	(354)	(106)	(4,406)	(1,174)	(12,909)
Currency translation impact	128	-	-	-	-	-	-	128
At December 31, 2022	6,201	8	63	16,076	56	4,745	1,085	28,234



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

16 DEFERRED INCOME TAXES (CONTINUED)

Deferred tax liabilities

The movement on the gross deferred income tax liabilities is as follows:

	Long-term investments measured at fair value through profit or loss RMB'000	Short-term investments measured at fair value through profit or loss RMB'000	Total RMB'000
At January 1, 2021	–	188	188
Charged to consolidated income statement	521	131	652
At December 31, 2021	521	319	840
Charged/(credited) to consolidated income statement	(148)	(319)	(467)
At December 31, 2022	373	–	373

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 December 31, 2021 and 2022, the Group did not recognize deferred income tax assets of RMB0.25 million and RMB33.67 million, in respect of cumulative tax losses amounting to RMB32.79 million and RMB135.66 million. These tax losses in Mainland China will expire from 2026 to 2027.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	29,169	11,683
Additions (a)	6,000	12,109
Disposal	(500)	–
Share of results of associates	(309)	5,377
Impairment (b)	(14,502)	–
At the end of the year	19,858	29,169

(a) During the year ended December 31, 2021, the Group further obtained 21% shares of an associate which mainly engaged in mobile game development with a consideration of RMB7.1 million. After the transaction, the Group held 45.64% shares of the unlisted Company. The Group remained significant influence in the unlisted company.

During the year ended December 31, 2022, the Group obtained 20% shares of an associate which mainly engaged in mobile game development with a consideration of RMB6 million. The Group had significant influence in the unlisted company.

(b) The Group regularly carries out impairment indicator assessment on the associates. During the year ended December 31, 2022, certain associates faced difficulties in business and cash flows due to changing of market and regulatory environment and have ceased all business. The Group determined the recoverable amounts of these investments based on value in use and made impairment provision of approximately RMB 14.5 million against the carrying amounts of these investments in associates (for the year ended December 31, 2021: Nil).

(c) The Group has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Aggregate carrying amount of individually immaterial associates	19,858	29,169
Aggregate amounts of the Group's share of: – (Loss)/profit from operations	(309)	5,377



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

18 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at December 31,	
	2022 RMB'000	2021 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 19)	200,223	136,252
– Short-term investments measured at fair value through profit or loss (Note 22)	489,717	355,313
	689,940	491,565
Financial assets at amortized costs:		
– Trade receivables (Note 21)	52,341	48,211
– Deposits and other assets	13,319	4,237
– Cash and cash equivalents (Note 23(a))	1,001,922	1,168,076
– Restricted cash (Note 23(b))	8,573	–
	1,076,155	1,220,524
Liabilities as per consolidated statement of financial position		
Financial liabilities at fair value through profit or loss:		
– Short-term liabilities measured at fair value through profit or loss (Note 22)	420	–
Financial liabilities at amortized costs:		
– Lease liabilities (Note 27)	26,803	32,562
– Trade payables (Note 30)	10,078	5,745
– Other payables (excluding salaries and benefits payable and other tax payables) (Note 31)	6,163	19,833
	43,044	58,140



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

19 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Investments in unlisted companies	147,658	77,255
Investments in private equity funds	52,565	58,997
	200,223	136,252

As at December 31, 2021 and 2022, long-term investments measured at fair value through profit or loss mainly represented: 1) investments in associates with significant influence in the form of redeemable instruments and measured at fair value through profit or loss, and investments in unlisted companies without significant influence in the form of ordinary shares; 2) equity investments in private equity funds in which the Group act as limited partners without significant influence. The Group has determined the fair value of these financial assets based on certain valuation techniques as disclosed in Note 3.3.

Movements in long-term investments measured at fair value through profit or loss during the year ended December 31, 2021 and 2022, are as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	136,252	77,800
Additions (a)	70,000	56,000
Change in fair value (Note 8)	(6,029)	2,452
At the end of the year	200,223	136,252



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

19 LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

- (a) *During the year ended December 31, 2021, the Group obtained 10.31% and 3.58% shares of two private equity funds which mainly invested in internet and game industry, with a consideration of RMB10 million and RMB30 million, respectively. The Group had no significant influence in the private equity funds and measured the investments as long-term investments measured at fair value through profit or loss.*

During the year ended December 31, 2021, the Group also obtained 2% shares of an unlisted company which mainly engaged in animation and cartoon production with a consideration of RMB16 million. The Group made the investment in the form of redeemable instruments and had no board seat in the unlisted company. Accordingly, the Group recognized the investment as long-term investments measured at fair value through profit or loss.

During the year ended December 31, 2022, the Group obtained 10%, 20% and 5% shares of three unlisted companies which one mainly engaged in game community, one mainly engaged in pop toy products design and the other mainly engaged in mobile game development, with a consideration of RMB5 million, RMB10 million and RMB50 million, respectively. Although the Group obtained one board seat respectively, as these investments are in the form of redeemable instruments, the Group recognized the investments as long-term investments measured at fair value through profit or loss.

During the year ended December 31, 2022, the Group also further obtained 13.28% shares of an unlisted company which mainly engaged in mobile game development with a consideration of RMB5 million, with shares held increased from 15% to 28.28%. The Group remained significant influence in the associate. As this investment is in the form of redeemable instrument, the Group remained measuring the investment as long-term investments measured at fair value through profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

20 PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Non-current		
Prepayments for game licenses (a)	7,642	5,755
Rental and other deposits	2,036	1,160
	9,678	6,915
Current		
Prepayments for sharing of proceeds (a)	32,564	14,554
Deposits in stock accounts	9,838	–
Prepayments for marketing and promotion services	9,262	16,445
Prepayments to service providers	5,469	6,578
Rental and other deposits	1,591	5,659
Loans due from employees	1,470	–
Others	839	781
Less: allowance for impairment	(55)	(13)
	60,978	44,004

(a) The Group licenses online games from game developers and pays game license fees and sharing of proceeds earned from selling in-game virtual items 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 of proceeds are expensed and recorded into cost of revenues on incurred basis.

The Group regularly assesses impairment indicator as set out in Note 2.9. During the year ended December 31, 2021 and 2022, the Group made no impairment provision for those prepayments since no impairment indicator of related games occurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

21 TRADE RECEIVABLES

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Distribution channels	36,830	38,646
Game publishers	11,800	9,087
Information service customers	791	555
Others	2,943	–
	52,364	48,288
Less: allowance for impairment	(23)	(77)
	52,341	48,211

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Third parties	37,882	39,299
Related parties	14,482	8,989
	52,364	48,288
Less: allowance for impairment	(23)	(77)
	52,341	48,211



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

21 TRADE RECEIVABLES (CONTINUED)

- (a) Distribution Channels and game publishers and information service customers usually settle the amounts within 30–60 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 December 31,	
	2022 RMB'000	2021 RMB'000
Within 3 months	42,930	47,208
3 months to 6 months	6,502	1,080
6 months to 1 year	2,932	–
	52,364	48,288

- (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 December 31, 2021 and 2022, the expected loss rate for related parties trade receivables is low and immaterial, and the expected credit loss rates for third-parties trade receivables are determined according to provision matrix as follows:

	As at December 31,	
	2022	2021
Within 3 months	0.00%	0.17%
3 months to 6 months	0.19%	2.14%
6 months to 1 year	2.12%	9.04%
1 to 2 years	6.37%	34.66%
Over 2 years	100.00%	100.00%

The expected loss rates are based on the payment profiles of sales over a period of 24 month before December 31, 2021 and 2022 respectively and the corresponding historical credit losses experienced within the 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 growth rate of Gross Domestic Product and IT & Information Service Output Price Index 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

21 TRADE RECEIVABLES (CONTINUED)

(b) (continued)

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	77	232
Provision	23	77
Reversal	(77)	(214)
Receivables written off during the year as uncollectable	-	(18)
At the end of the year	23	77

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 income.

- (c) The directors of the Group considered that the carrying amounts of the trade receivables balances approximated their fair value as at December 31, 2021 and 2022.
- (d) The carrying amount of the Group's trade receivables is denominated in the following currencies:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
USD	26,298	34,053
RMB	15,631	14,235
JPY	6,397	-
HKD	4,005	-
SGD	33	-
	52,364	48,288

- (e) The maximum exposure to credit risk as at December 31, 2021 and 2022 was the carrying value of the trade receivables. The Group did not hold any collateral as security.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

22 FINANCIAL ASSETS/(LIABILITIES) MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CURRENT)

The financial assets/(liabilities) measured at fair value through profit or loss (current) are foreign exchange forward contracts, wealth management products issued by commercial banks and investment funds of which principal and returns are not guaranteed. Fair value measurement are as disclosed in Note 3.3.

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Financial assets – wealth management products issued by commercial banks and investment funds		
At the beginning of the year	355,313	1,059
Additions	796,308	603,851
Change in fair value (Note 8)	47,139	683
Redemption	(742,342)	(250,275)
Currency translation impact	33,299	(5)
At the end of the year	489,717	355,313

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Financial liabilities – derivative instruments		
At the beginning of the year	–	240
Additions	–	–
Change in fair value (Note 8, Note 3.3(a))	(4,308)	1,895
Redemption	3,888	(2,135)
Currency translation impact	–	–
At the end of the year	(420)	–



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

23 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS

(a) Cash and cash equivalents

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Term deposit with initial terms within three months	648,294	–
Cash on hand and cash in bank	351,718	1,166,993
Cash held by other financial institutions (i)	1,910	1,083
	1,001,922	1,168,076

- (i) As at December 31, 2021 and 2022, 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 statements of financial position.

Cash and cash equivalents are denominated in the following currencies:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
USD	889,706	243,475
RMB	58,129	169,403
JPY	47,087	699
HKD	6,848	754,499
SGD	152	–
	1,001,922	1,168,076



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

23 CASH AND BALANCES WITH BANK AND FINANCIAL INSTITUTIONS (CONTINUED)

(b) Restricted Cash

Restricted Cash are denominated in the following currencies:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
USD	8,573	–

As at December 31, 2022, USD1.2 million (equivalent to approximately RMB8.6 million) were cash deposits held by bank as deposits for foreign exchange forward contracts signed with the same bank. No foreign exchange forward contract was outstanding as at December 31, 2021.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

24 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
Authorised				
As at December 31, 2022 and 2021	5,000,000	50	–	–
Issued				
As at January 1, 2021	–	–	–	–
Issuance of ordinary shares in relation to the Reorganisation of the Group (a)	9,530	–	1	2,313,575
Conversion of Preferred Shares to ordinary shares (b)	5,893	–	–	2,093,797
Capitalization Issue (c)	584,577	6	38	(38)
Issuance of ordinary shares upon IPO (d)	85,000	1	5	743,919
As at December 31, 2021	685,000	7	44	5,151,253
Issued				
As at January 1, 2022	685,000	7	44	5,151,253
Issuance of ordinary shares upon IPO over-allotment (e)	6,331	–	–	55,888
Dividend distribution to the shareholders (Note 32)	–	–	–	(89,320)
As at December 31, 2022	691,331	7	44	5,117,821



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

24 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

- (a) On May 14, 2021, as part of the reorganization, the Company allotted and issued an aggregate of 9,530,575 ordinary shares at par value of US\$0.00001 each share to offshore holding vehicles which are beneficially owned by the ordinary shareholders of QC Digital as at that date. Upon completion of the reorganization, the fair value of ordinary shares of QC Digital amounting to RMB2,313 million was transferred from capital reserve to share premium accordingly.
- (b) Upon completion of the IPO, all convertible redeemable preferred shares (Note 29) were converted into ordinary shares. As a result, convertible redeemable preferred shares were derecognized and recorded as share capital and share premium accordingly.
- (c) On December 16, 2021, the Company allotted and issued a total of 584,576,999 ordinary shares of US\$0.00001 each credited as fully paid at par value to the shareholders on the register of members of the Company on the day preceding the date of IPO in proportion to their then existing shareholdings in the Company by capitalizing from the share premium account of the Company ("Capitalization Issue"). The ordinary shares allotted and issued pursuant to the above Capitalization Issue rank *pari passu* in all respects with the existing issued ordinary shares.
- (d) On December 16, 2021, upon completion of the IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 85,000,000 new ordinary shares at HKD11.20 per share, and raised gross proceeds of approximately HKD952 million (equivalent to RMB776 million). The net proceeds was approximately HKD912 million (equivalent to RMB744 million) after deducting listing expenses directly relating to the share issuance.
- (e) On January 12, 2022, following the partial exercise of over-allotment option available upon its IPO, the Company issued 6,330,500 new ordinary shares at HKD11.20 per share and raised gross proceeds of approximately HKD71 million (equivalent to RMB58 million). The net proceeds was approximately HKD68 million (equivalent to RMB56 million) after deducting listing expenses directly relating to the share issuance.

25 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserves RMB'000	Share-based compensation expenses RMB'000	Currency translation differences RMB'000	Total RMB'000
As at January 1, 2021	59,088	11,422	70,017	(955)	139,572
Recognition of redemption liability for the financial instruments issued to investors (Note 28(a))	(251,564)	-	-	-	(251,564)
Effect of Share Exchange (Note 29)	(633,303)	-	-	-	(633,303)
Effect of Reorganization of the Group (Note 24)	(2,313,575)	-	-	-	(2,313,575)
Currency translation differences	-	-	-	26,315	26,315
As at December 31, 2021	(3,139,354)	11,422	70,017	25,360	(3,032,555)
As at January 1, 2022	(3,139,354)	11,422	70,017	25,360	(3,032,555)
Currency translation differences	-	-	-	99,915	99,915
Share-based compensation expenses (Note 7)	-	-	519	-	519
As at December 31, 2022	(3,139,354)	11,422	70,536	125,275	(2,932,121)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

26 CONTRACT LIABILITIES

Contract liabilities primarily consists of i) 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 ii) the unamortised balance of the initial license fee paid by licensees.

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Game operating	41,283	74,012
Game licensing	–	906
	41,283	74,918

The following table shows the amount of revenue recognized in the consolidated statements of comprehensive income for the respective years relating to contract liabilities brought forward:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of the year		
Game operating	74,012	227,033
Game licensing	906	–
	74,918	227,033



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

27 LEASE LIABILITIES

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Minimum lease payments due		
– Within 1 year	10,588	9,886
– Between 1 and 2 years	6,963	9,904
– Between 2 and 5 years	11,439	15,885
	28,990	35,675
Less: future finance charges	(2,187)	(3,113)
Present value of lease liabilities	26,803	32,562

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Lease liabilities		
– Within 1 year	10,207	9,827
– Between 1 and 2 years	6,601	9,218
– Between 2 and 5 years	9,995	13,517
	26,803	32,562



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

28 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS

The movements of the Financial Instruments Issued to Investors are set out below:

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
At the beginning of the year	-	89,067
Changes in the carrying amount due to the interest of 8% per annum	-	2,940
Changes in the carrying amount due to Share Transfer (a)		
- Losses from financial instruments issued to investors	-	50,988
- Other reserves (Note 25)	-	251,564
De-recognition upon Share Exchange (Note 29)	-	(394,559)
At the end of the year	-	-

In July 2019, QC Digital entered into an investment agreement with G-bits, pursuant to which G-bits made a total investment of RMB80 million in QC Digital as consideration for subscription of QC Digital's paid-in capital of RMB1.7 million, representing 13.33% of equity interest in QC Digital. According to the agreement, these ordinary shares will become redeemable by G-bits under certain events which are out of the Group's control. QC Digital does not have the unconditional right to avoid delivering cash or other financial assets to settle contractual obligation upon occurrence of certain events which are out of the control of the Group. The Group recognized the aforementioned investment made by G-bits (the "Financial Instruments Issued to Investors") as financial liabilities which recognized initially at the present value of the redemption amount, which is computed based on the investment amount of RMB80 million plus an interest of 8% per annum. Any changes in the carrying amount of the financial liabilities were recorded in "Losses from financial instruments issued to investors" of consolidated statements of comprehensive income.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

28 FINANCIAL INSTRUMENTS ISSUED TO INVESTORS (CONTINUED)

- (a) Before April 21, 2021, G-bits' equity interest in QC Digital includes i) the equity investment in the form of ordinary shares of 21.21%; ii) equity investment in the form of ordinary shares with preferential rights of 12%. On April 21, 2021, Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司) ("Tencent"), Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司) ("Shanghai Hode"), and Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司) ("Guangzhou Lingxi"), entered into a share transfer agreement with G-bits, pursuant to which G-bits transferred each 3.37% equity interests in QC Digital to Tencent, Shanghai Hode and Guangzhou Lingxi, respectively (10.11% in aggregate), at an consideration of RMB101.15 million each (RMB303.45 million in aggregate). After this share transfer, the equity investments held by G-bits, Tencent, Shanghai Hode and Guangzhou Lingxi (collectively "Series A Investors"), amounting to 23.10%, 3.37%, 3.37%, 3.37%, respectively, are entitled to preferential rights although the Series A Investors did not contribute consideration in QC Digital during this share transfer. According to the agreement, these ordinary shares held by Series A Investors will become redeemable by Series A Investors under certain events which are out of the Group's Control. Since QC Digital does not have the unconditional right to avoid delivering cash or another financial assets to settle the contractual obligation, the Group Recognized the investments held by Series A Investors as a financial liability of RMB394 million upon the share transfer, which initially recognized at the present value of the redemption amount. The redemption amount is calculated based on the agreed fixed amount plus an interest at eight percent per annum, QC Digital agreed with the Series A Investors a fixed amount (using as the basis to calculate the redemption amount) of RMB90 million for G-bits, and RMB101.15 million each for Tencent, Shanghai Hode and Guangzhou Lingxi respectively. After this share transfer, given the preferential rights granted by the Group To the Series A Investors, the G-bits previously held equity interests of 21.21% in the form of ordinary shares with carrying value of RMB50 million became a financial liability of RMB252 million (Note 25). The financial liability should be initially recognized at the present value of the redemption amount and reclassified from equity, therefore the financial liability amounting to RMB252 million was reclassified from "other reserves" of consolidated statements of financial position. While the liability recognized for G-bits previously held equity interests with preferential rights of 12.00% became a financial liability of RMB142 million, the change from its previous carrying value of RMB91 million, amounting to RMB51 million, was recorded in "Losses from financial instruments issued to investors" of consolidated statements of comprehensive income.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On May 14, 2021, to reflect the onshore shareholding structure of QC Digital, 4,739,938 Series A Preferred Shares of the Company were issued to Series A Investors' offshore affiliates ("Series A Preferred Shareholders"). The Group recognized Series A Preferred Shares as financial liabilities measured at fair value through profit or loss of RMB1,028 million at their fair value. Upon entering into the Contractual Arrangements on May 26, 2021, shareholders of QC Digital became nominee shareholders and the preferential rights held by Series A Investors in QC Digital were cancelled accordingly (together with the issuance of Series A Preferred Shares, as the "Share Exchange"). The carrying amount of "financial instruments issued to investors" of RMB395 million was then derecognized accordingly. Upon the Share Exchange, Series A Investors gave up their investments of ordinary shares with preferential rights (which mainly represents a put option under certain condition) that they held in QC Digital, and in return, Series A Investors' offshore affiliates received Series A Preferred Shares of the Company. The management assessed that the Share Exchange involves the de-recognition of ordinary shares with preferential rights (i.e. one equity and one liability) of QC Digital, with carrying amounts of RMB395 million, by issuing Series A Preferred Shares with fair value of RMB1,028 million. The total difference between the fair value of the Series A Preferred Shares and the carrying value of the ordinary shares with preferential rights of QC Digital held by Series A Investors, amounting to RMB633 million, was recorded into i) the consolidated statements of comprehensive income (RMB nil), given the fair value allocated to the liability de-recognised is the same as its carrying value; and ii) the "other reserve" of consolidated statements of financial position (RMB633 million), which representing the difference between the remaining fair value allocated and the carrying value of the equity de-recognised.

On May 26, 2021, Wildlife Willow Limited, Bilibili Inc., Qookka Entertainment Limited and Tencent Mobility Limited (collectively "Series B Preferred Shareholders") entered into share purchase agreement with the Company, pursuant to which an aggregate of 1,152,488 convertible redeemable preferred shares of the Company were allotted to the Series B Preferred Shareholders with a consideration of USD62.61 million, equivalent to approximately RMB401 million. The Group recognized Series B Preferred Shares as financial liabilities measured at fair value through profit or loss.

The key terms of all series of Series A Preferred Shares and Series B Preferred Shares effective and applicable upon their issuance are as follows:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Liquidation Preferences of Series A Preferred Shares and Series B Preferred Shares

In the event of any i) liquidation; ii) dissolution; iii) winding up or termination of business of the Company; iv) any consolidation, reorganization, amalgamation, merger or other transaction of the Company, with or into any person, or any other corporate reorganization or scheme of arrangement, in which the current shareholders of the Company immediately before such transaction own less than 50% of the voting power of the surviving company immediately after such transaction, whether voluntary or involuntary; v) a sale, lease, transfer, or other disposition, in a single transaction or series of transactions, of all or substantially all of the assets of the Group Companies (including sale or exclusive licensing to any third party other than the Group Companies, in a single transaction or series of transactions, of all or substantially all of the intellectual property of the Group Companies, taken as a whole), the effect of which is the disposition of all or substantially all of the Group Companies' assets taken as a whole; whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the Shareholders (after satisfaction of all creditors' claims and claims that may be preferred by applicable law) shall be distributed to the Shareholders in the sequence of Series B Preferred Shares, Series A Preferred Shares, ordinary shares.

The preferential liquidation amount shall be equal to any dividends declared and unpaid with respect to the Preferred Shares plus the higher of: (A) one hundred percent (100%) of the Preferred Shares Issue Price plus (B) eight percent (8%) simple interest per annum of the Preferred Shares Issue Price accrued annually (which shall be accrued from the Preferred Shares Closing Date to the date when the Preferred Shares Preference Amount is paid) plus (C) all declared but unpaid dividends on such Preferred Shares and (ii) the amount which would have been payable had such Preferred Shares been converted into an Ordinary Share immediately prior to the Liquidation Event or Deemed Liquidation Event.

Conversion Rights of Series A Preferred Shares and Series B Preferred Shares

Each Preferred Share may, at the option of the Preferred Shareholders thereof, be converted at any time after the date of issuance of such Preferred Shares into fully-paid and non-assessable ordinary shares at an initial conversion ratio of 1:1 subject to i) adjustment for share splits and combinations; ii) adjustment for ordinary share dividends and distributions; iii) adjustments for other dividends; iv) adjustments for reorganizations, mergers, consolidations, reclassifications, exchanges, substitutions; v) adjustments to conversion price for dilutive issuance.

In addition, each Preferred Share shall automatically be converted, based on the then-effective conversion price, without any action being required by the holder of such Preferred Share and whether or not the certificates representing such Preferred Share surrendered to the Company or its transfer agent, into fully-paid and non-assessable ordinary shares upon the earlier of (a) the closing of a qualified IPO duly approved in accordance with the shareholders agreement and the memorandum and articles and (b) the date specified by written consent of all the Preferred Holders.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption Rights of Series B Preferred Shares

Series B Preferred Shares shall be redeemable at the election of Series B Preferred Shareholders upon specific conditions as follows: i) the Company does not consummate a qualified IPO within three years from the closing of issuance of Series B Preferred Shares; ii) the Group is materially in violation of applicable Law and unable to carry out its Principal Business legally; iii) any material breach or violation of or inaccuracy or misrepresentation in any representation or warranty made by the Company or any member of key management Team in the Transaction Documents, or any material breach or violation of any undertaking, covenant or obligation by the Company or any member of key management team contained in the transaction documents; iv) any Series B Preferred Shareholder has exercised its redemption rights.

Dividends and voting rights of Series A Preferred Shares and Series B Preferred Shares

Each preferred shares shall have voting rights and dividend rights equivalent to ordinary shareholders into which such preferred shares could be convertible.

Conversion of Preferred Shares to ordinary shares

Upon the listing on December 16, 2021, all outstanding preferred shares of the Company have been converted into ordinary shares. The convertible redeemable preferred shares was derecognized accordingly (Note 24).

The movements of the convertible redeemable preferred shares are set out as below:

	RMB'000
As at January 1, 2021	–
Issuance of Series A Preferred Shares	1,027,862
Issuance of Series B Preferred Shares	401,000
Change in fair value	691,052
De-recognition upon conversion to ordinary shares upon listing (Note 24)	(2,093,797)
Currency translation differences	(26,117)
As at December 31, 2021	–



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Conversion of Preferred Shares to ordinary shares (continued)

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions are set as below:

	As at December 16, 2021
Discount rate	15%
Risk-free interest rate	3%
DLOM	1%
Volatility	43%

30 TRADE PAYABLES

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Trade payables	10,078	5,745

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 30 to 90 days.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

30 TRADE PAYABLES (CONTINUED)

The carrying amount of the Group's trade payables is denominated in the following currencies:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
USD	6,547	802
RMB	3,386	4,839
JPY	145	104
	10,078	5,745

As at December 31, 2021 and 2022, the fair value of trade payables approximated to their carrying amount.

Aging analysis of trade payables based on the recognition date of the trade payables at the respective reporting dates are as follows:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Within 3 months	9,891	5,602
Over 3 months	187	143
	10,078	5,745

31 OTHER PAYABLES AND ACCRUALS

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Salaries and benefits payables	57,029	79,904
Payables for Professional fee	5,996	3,400
Other tax payables	2,516	3,609
Listing expenses	–	15,223
Others	2,099	1,210
	67,640	103,346



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

31 OTHER PAYABLES AND ACCRUALS (CONTINUED)

The carrying amount of the Group's other payables is denominated in the following currencies:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
RMB	66,683	91,435
JPY	925	280
USD	17	11,549
HKD	15	82
	67,640	103,346

32 DIVIDEND DISTRIBUTION

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Dividend distribution	89,320	180,000

Pursuant to the resolutions of the shareholders' meetings of QC Digital in May 2021, dividends of RMB180,000,000 were approved and paid to the then shareholders in cash.

The final dividend of HK15.2 cents per share for the year ended December 31, 2021, amounted HKD105,082,236 (equivalent to approximately RMB89,319,901) in total was approved in the shareholders' meetings of the Company held on June 6, 2022 and paid on July 29, 2022.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	Notes	Year ended December 31,	
		2022 RMB'000	2021 RMB'000
Profit/(loss) before income tax		78,535	(401,265)
Adjustments for			
Depreciation	6	14,563	6,391
Net impairment losses on financial assets	6	(10)	(140)
Share-based payment	7	519	-
Share of results of investments accounted for using equity method	17	309	(5,377)
Fair value changes on investments measured at fair value through profit or loss	8	(36,802)	(5,030)
Finance costs, net	11	1,470	673
Losses from financial instruments issued to investors	28	-	53,928
Changes in fair value of convertible redeemable preferred shares	29	-	691,052
Losses on impairment of investments accounted for using the equity method	17	14,502	-
Other losses, net		1,314	(8)
Other income		(929)	-
Net exchange differences		9,472	7,457
		82,943	347,681
Changes in working capital			
- Trade receivables		(4,076)	73,434
- Prepayments, deposits and other assets		(21,094)	10,828
- Inventories		201	(57)
- Trade payables		4,333	(7,584)
- Contract liabilities		(33,635)	(153,031)
- Other payables and accruals		(35,583)	(63,821)
Cash generated from operations		(6,911)	207,450



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Net debt reconciliation

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Cash and cash equivalents	1,001,922	1,168,076
Lease liabilities	(26,803)	(32,562)
Net cash	975,119	1,135,514

	Cash and cash equivalents RMB'000	Lease liabilities RMB'000	Total RMB'000
As at January 1, 2022	1,168,076	(32,562)	1,135,514
Cash flows	(233,130)	11,536	(211,594)
Increase of right-of-use assets	-	(10,374)	(10,374)
Disposal of right-of-use assets	-	5,394	5,394
Accrual interest for lease liabilities	-	(880)	(880)
Currency translation differences	-	83	83
Foreign exchange adjustments	56,976	-	56,976
As at December 31, 2022	1,001,922	(26,803)	975,119



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Net debt reconciliation (continued)

	Cash and cash equivalents RMB'000	Financial instruments issued to investors RMB'000	Lease liabilities RMB'000	Convertible redeemable preferred shares RMB'000	Total RMB'000
As at January 1, 2021	443,248	(89,067)	(10,394)	-	343,787
Cash flows	732,279	-	5,178	(401,000)	336,457
Issuance of Series A Preferred Shares	-	-	-	(1,027,862)	(1,027,862)
Increase of right-of-use assets	-	-	(26,673)	-	(26,673)
Accrual interest for lease liabilities	-	-	(673)	-	(673)
Losses from financial instruments issued to investors	-	(53,928)	-	-	(53,928)
Changes in carrying amount due to Share Transfer (Note 28(a))	-	(251,564)	-	-	(251,564)
De-recognition of financial instruments issued to investors (Note 29)	-	394,559	-	-	394,559
Changes in fair value of convertible redeemable preferred shares	-	-	-	(691,052)	(691,052)
De-recognition upon conversion to ordinary shares upon listing	-	-	-	2,093,797	2,093,797
Currency translation differences	-	-	-	26,117	26,117
Foreign exchange adjustments	(7,451)	-	-	-	(7,451)
As at December 31, 2021	1,168,076	-	(32,562)	-	1,135,514



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

34 COMMITMENTS

(a) Capital commitments

The Group made capital expenditure in respect of long-term equity investments as at December 31, 2021 and 2022. The Group has commitments to make the following future installments under non-cancelable agreements are as follows:

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Capital investment in investees	10,500	11,000

35 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

35 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 December 31, 2021 and 2022.

Name of related parties	Relationship
Shenzhen Hot Zone Network Technology Co., Ltd.	Associate
Chengdu Weimei Interactive Technology Co., Ltd.	Associate
Shenzhen Jishiwu Technology Co., Ltd.	Associate
Guangzhou Jodo Information and Technology Co., Ltd.	Associate
Xiamen Black Veins Game Technology Co., Ltd.	Associate
Fuzhou Kakapo Entertainment Co., Ltd.	Associate
Chengdu Niuwanqihao Cultural Creativity Co., Ltd.	Associate
Shanghai Meogulu Technology Co., Ltd.	Associate
G-bits Group (1)	Shareholder

(1) G-bits Network Technology (Xiamen) Co., Ltd. ("G-bits Xiamen") is a shareholder of the Company. G-bits Group represents G-bits Xiamen and its subsidiaries, including Shenzhen Leiting Information Technology Co., Ltd., Xiamen Leiting Network Technology Co., Ltd. and Hongkong Leiting Information Technology Co., Ltd.

(b) Significant transactions with related parties

(i) Game licensing revenue

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
G-bits Group	25,367	35,374
Chengdu Niuwanqihao Cultural Creativity Co., Ltd.	893	–
	26,260	35,374



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties (continued)

(ii) Information service revenue

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
G-bits Group	-	218

(iii) Other revenue

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Chengdu Niuwanqihao Cultural Creativity Co., Ltd.	120	-

(iv) Commission to game developers

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Shenzhen Jishiwu Technology Co., Ltd.	7,302	35,937
Shenzhen Hot Zone Network Technology Co., Ltd.	3,493	3,007
	10,795	38,944



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties (continued)

(v) Marketing and promotion expenses

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Guangzhou Jodo Information and Technology Co., Ltd.	18,146	14,379
G-bits Group	567	14,440
	18,713	28,819

(vi) Rental expenses

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
G-bits Group	3,093	3,791

(vii) Outsourcing expenses

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Chengdu Weimei Interactive Technology Co., Ltd	368	1,905



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year end balances with related parties

(i) Trade receivables from related parties

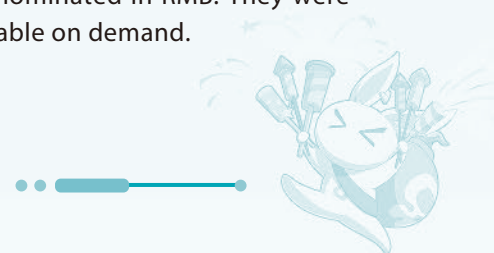
	As at December 31,	
	2022 RMB'000	2021 RMB'000
Game publishing		
G-bits Group	10,845	8,989
Merchandise channel		
Chengdu Niwanqihao Cultural Creativity Co., Ltd.	3,637	-

The above balances with related parties were mainly denominated in RMB and USD. They were unsecured, trade in nature, non-interest bearing and repayable to the Group on demand.

(ii) Trade payables to related parties

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Commissions charged by game developers		
Shenzhen Jishiwu Technology Co., Ltd.	671	-
Shenzhen Hot Zone Network Technology Co., Ltd.	606	192
Chengdu Weimei Interactive Technology Co., Ltd.	-	33
G-bits Group	62	62
Marketing and promotion		
Guangzhou Jodo Information and Technology Co., Ltd.	3,371	625
G-bits Group	2	1,604
Total	4,712	2,516

The above balances with related parties were mainly denominated in RMB. They were unsecured, trade in nature, non-interest bearing and repayable on demand.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Year end balances with related parties (continued)

(iii) Prepayments to related parties

	As at December 31,	
	2022 RMB'000	2021 RMB'000
Prepayments for sharing of proceeds		
Shenzhen Jishiwu Technology Co., Ltd.	10,000	10,988
Xiamen Black Veins Game Technology Co., Ltd.	3,000	–
Fuzhou Kakapo Entertainment Co., Ltd.	3,000	–
Shanghai Meogulu Technology Co., Ltd.	755	–
G-bits Group	566	566
Prepayments for game licenses		
Shenzhen Jishiwu Technology Co., Ltd.	4,057	4,057
Shanghai Meogulu Technology Co., Ltd.	1,887	–
G-bits Group	1,698	1,698
	24,963	17,309

The above balances with related parties were mainly denominated in RMB. They were unsecure, trade in nature and non-interest bearing.

(iv) Other receivables from related parties

	As at December 31,	
	2022 RMB'000	2021 RMB'000
<i>Non-trade</i>		
Rental and other deposits (1)		
G-bits Group	289	289

(1) According to the leasing agreement, the rental deposits will be repaid by G-bits upon expiry of the leasing agreement.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

35 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management compensation

	Year ended December 31,	
	2022 RMB'000	2021 RMB'000
Wages, salaries and bonuses	37,689	11,495
Post-employment benefits	363	225
Long term benefits	-	-
Termination benefits	-	-
Share based compensation expenses	-	-
	38,052	11,720

36 CONTINGENCIES

The Group did not have any material contingent liabilities as at December 31, 2021 and 2022.

37 SUBSEQUENT EVENTS

There were no material subsequent events occurred during the period from December 31, 2022 to the approval date of these consolidated financial statements by the Board of Directors on March 28, 2023.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

38 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Financial position of the Company

	As at December 31,	
	2022 RMB'000	2021 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	3,630,598	3,323,609
	3,630,598	3,323,609
Current assets		
Prepayments and other assets	1,185,210	762,775
Short-term investments measured at fair value through profit or loss	145,125	153,182
Cash and cash equivalents	111,102	222,668
	1,441,437	1,138,625
Total assets	5,072,035	4,462,234
EQUITY		
Share capital	44	44
Share premium	5,117,821	5,151,253
Other reserves	418,202	8,439
Accumulated losses	(736,326)	(739,456)
Total equity	4,799,741	4,420,280
LIABILITIES		
Current liabilities		
Other payables and accruals	272,294	41,954
Total liabilities	272,294	41,954
Total equity and liabilities	5,072,035	4,462,234

The balance sheet of the Company was approved by the Board of Directors on March 28, 2023 and was signed on its behalf.

Huang Zhiqiang
Director

Liu Siming
Director



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

38 FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
As at January 1, 2021	-	-
Loss for the year	-	(739,456)
Currency translation differences	8,439	-
As at December 31, 2021	8,439	(739,456)
As at January 1, 2022	8,439	(739,456)
Profit for the year	-	3,130
Currency translation differences	409,763	-
As at December 31, 2022	418,202	(736,326)



Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	630,367	1,105,816	1,226,920	88,704	98,421
Gross profit	422,087	812,599	942,355	68,737	76,751
Operating profit	86,588	337,150	119,428	25,566	26,229
(Loss)/profit before income tax	78,535	(401,265)	113,316	20,654	26,276
Income tax benefit/(expenses)	(32,879)	32,627	(9,577)	(1,029)	(1,416)
(Loss)/profit for the year	45,656	(368,638)	103,739	19,625	24,860
(Loss)/profit attributable to Equity holders of the Company	50,283	(367,231)	103,739	19,625	24,860
(Loss)/earnings per share attributable to equity holders of the Company Basic and diluted (RMB)	0.07	(0.96)	10.88	2.06	2.61

CONDENSED CONSOLIDATED BALANCE SHEET

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Non-current assets	302,793	253,020	106,776	40,545	34,259
Current assets	1,613,609	1,615,883	628,045	189,364	100,899
Total assets	1,916,402	1,868,903	734,821	229,909	135,158
Non-current liabilities	16,596	22,735	95,883	82,667	1,685
Current liabilities	140,906	199,833	424,735	33,823	39,679
Total liabilities	157,502	222,568	520,618	116,490	41,364
Net assets	1,758,900	1,646,335	214,203	113,419	93,794



Definitions

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

“Alibaba”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands, the ordinary shares of which are listed on the Main Board of the Stock Exchange with the Stock Code: 9988 and its American Depositary Shares (each representing eight ordinary shares) are listed for trading on the New York Stock Exchange under the symbol “BABA”
“Alibaba Lingxi”	Guangzhou Lingxi Interactive Entertainment Limited (廣州靈犀互動娛樂有限公司), a company incorporated under the laws of the PRC with limited liability
“Alibaba Qookka”	Qookka Entertainment Limited (formerly known as Ejoy.com Limited), a company incorporated in Hong Kong with limited liability on February 28, 2012
“ARPPU” or “average revenue per paying user”	average revenue per month per paying user, which is calculated by (i) dividing our revenue from a game for a specified period by the total MPUs of such game for that period, or (ii) dividing our total game revenue for a specified period by the aggregate of the total MPUs of all of our games for that period, as applicable.
“Audit Committee”	the audit committee of the Board
“average MAUs”	calculated by dividing (i) the total MAUs of a game, or (ii) the aggregate of the total MAUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MAUs did not consider each game’s data before its official launch
“average MPUs”	calculated by dividing (i) the MPUs of a game, or (ii) the aggregate of the total MPUs of all of our games, as applicable, for a specified period by the number of months of that period. Our calculations of average MPUs did not consider each game’s data before its official launch
“Board” or “Board of Directors”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”	Qingci Games Inc. (青瓷游戏有限公司), an exempted company incorporated in the Cayman Islands with limited liability on March 12, 2021 and whose Shares are listed on the Stock Exchange



DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Financial Statements”	the audited consolidated financial statements of the Group
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, WFOE, QC Digital and the Registered Shareholders
“Director(s)”	the director(s) of our Company
“G-bits”	G-bits Network Technology (Xiamen) Co., Ltd. (廈門吉比特網絡技術股份有限公司), a company incorporated in the PRC with limited liability on March 26, 2004 and is listed on the Shanghai Stock Exchange under the stock code: 603444, a substantial shareholder of the Company
“Global Offering”	has the meaning ascribed to it under the Prospectus
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company and its subsidiaries from time to time
“Guangxi Tencent”	Guangxi Tencent Venture Capital Co., Ltd. (廣西騰訊創業投資有限公司), a company incorporated in the PRC with limited liability
“HK dollar” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK Kunpan”	Hongkong Kunpan Co., Limited (香港坤磐有限公司), a company incorporated in Hong Kong with limited liability on December 16, 2016, and an indirect wholly-owned subsidiary of G-bits
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“Latest Practicable Date”	April 12, 2023, being the latest practicable date for ascertaining certain information for inclusion in this report
“Listing”	the listing of Shares on the Main Board of the Stock Exchange on December 16, 2021



DEFINITIONS

“Listing Date”	December 16, 2021 being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the Main Board of the Stock Exchange
“MAU(s)”	monthly active users, which represents the number of active users during a specified calendar month
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“MPU(s)”	monthly paying users, which represents the number of paying players during a specified calendar month
“PRC” or “China”	the People’s Republic of China, excluding, for the purposes of this report, Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“PRC Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely QC Digital and its respective subsidiaries
“Prospectus”	the prospectus issued by the Company on December 6, 2021 in connection with the Hong Kong public offering of the Shares
“QC Digital”	QC-Game Digital Technology (Xiamen) Co., Ltd.* (廈門青瓷數碼技術有限公司), a company incorporated in the PRC with limited liability on March 1, 2012
“Registered Shareholders”	G-bits, Xiamen Sealand, Wofan Qihang, Guangxi Tencent, Alibaba Lingxi, Shanghai Hode, Mr. Yang Xu, Mr. Huang Zhiqiang, Mr. Liu Siming, Mr. Zeng Xiangshuo, Mr. Wei Shumu, Mr. Ye Jiting and Mr. Lin Yiwei
“Reporting Period”	twelve months from January 1, 2022 to December 31, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time



DEFINITIONS

“Shanghai Hode”	Shanghai Hode Information Technology Co., Ltd. (上海幻電信息科技有限公司), a company incorporated in the PRC with limited liability
“Shareholder(s)”	holder(s) of Share(s)
“Shares”	ordinary share(s) in the capital of the Company with nominal value of US\$0.0001 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“WFOE”	QC Interactive Technology Co., Ltd.* (廈門青瓷互動科技有限公司), a wholly foreign-owned enterprise established in the PRC on May 17, 2021 by QC HK Limited, an indirect wholly-owned subsidiary of our Company
“Wofan Qihang”	Xiamen Wofanqihang Venture Capital Partnership (Limited Partnership)* (廈門蝸帆起航創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on December 11, 2020, a substantial shareholder of the Company
“Xiamen Sealand”	Xiamen Sealand Capital Nuts Venture Investment Partnership (Limited Partnership)* (廈門國海堅果創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on May 6, 2013, a shareholder of the Company

* For identification purpose only





 **青瓷游戏**
QINGCI GAMES