

**祖龙娱乐**  
ARCHOSAUR GAMES

**祖龙娱乐有限公司**  
**Archosaur Games Inc.**

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

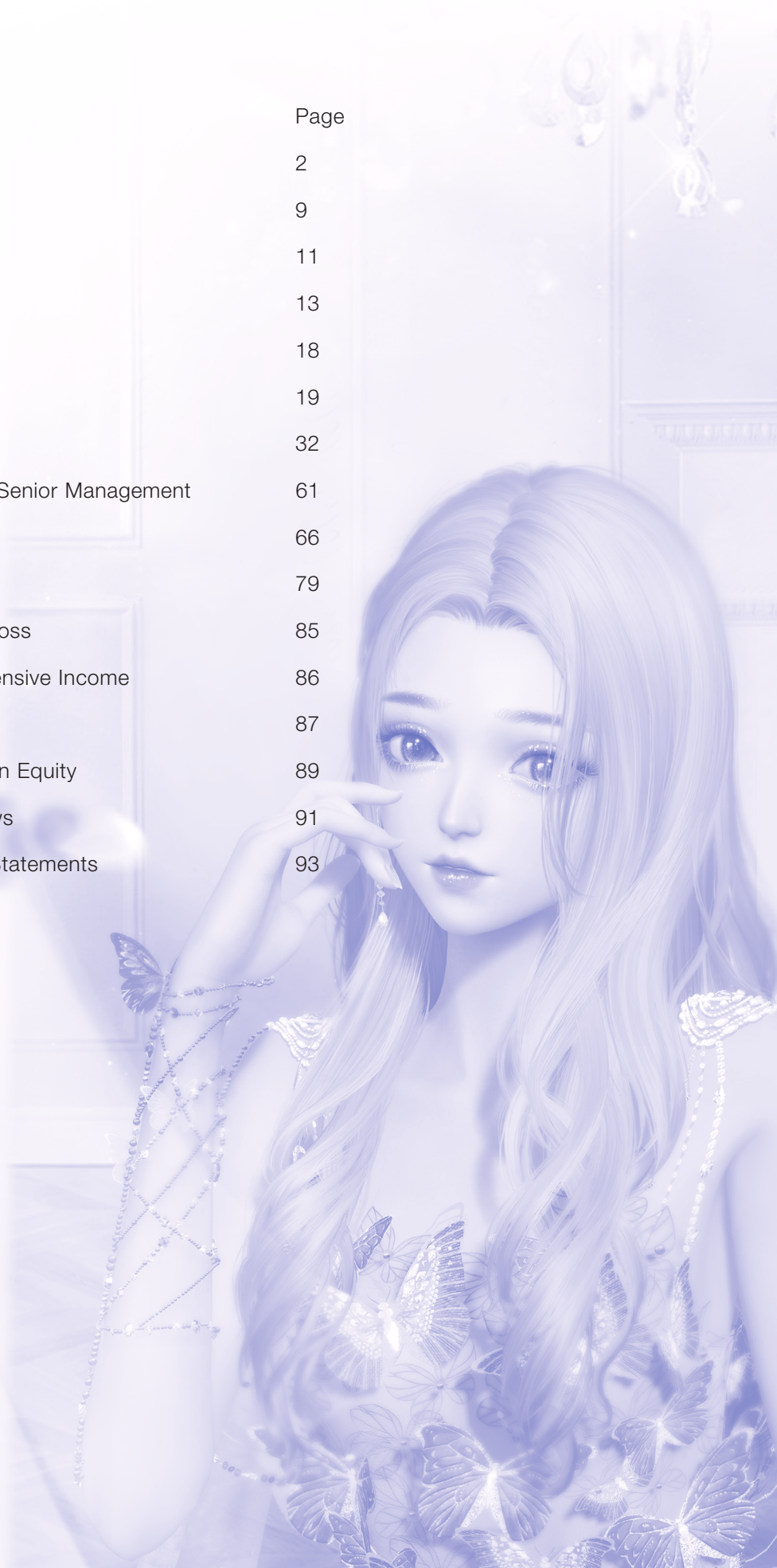
Stock Code 股份代號 : 9990

**2022**  
年 報  
ANNUAL REPORT



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In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Adoption Date”	5 February 2021, being the date on which the Share Option Scheme was adopted by the Shareholders at the extraordinary general meeting of the Company held on Friday, 5 February 2021
“Amendment Date”	22 December 2022, being the date on which the amendments to the Share Option Scheme was approved by the Shareholders at the extraordinary general meeting of the Company held on Thursday, 22 December 2022
“Articles of Association”	the amended and restated memorandum and articles of association of the Company adopted on 24 June 2020 with effect from the Listing Date (as amended from time to time)
“Audit Committee”	the audit committee of the Company
“Beijing Fantasy Mermaid”	Beijing Fantasy Mermaid Technology Limited* (北京幻想美人魚科技有限公司), a company established under the laws of the PRC with limited liability on 9 September 2014, which is wholly-owned by Famous Game, our subsidiary and a WFOE
“Beijing Loong”	Beijing Loong Game Technology Limited* (北京祖龍遊科技有限公司), a company established under the laws of the PRC with limited liability on 9 September 2014 and is one of the Registered Shareholders
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“China” or “PRC”	the People’s Republic of China
“Company” or “Archosaur Games”	Archosaur Games Inc. 祖龙娱乐有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability whose Shares are listed and traded on the Main Board of the Stock Exchange (stock code: 9990)
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Tianjin Loong and its subsidiaries established from time to time

“Cooperative Game”	an online game to be developed by Chengdu Fantasy Mermaid Technology Limited based on (i) the adaptation from the Dragon Raja Original Work; and (ii) use of content from the Dragon Raja Animation, both granted to Chengdu Fantasy Mermaid Technology Limited by Tencent Penguin in accordance with the Licensing Agreement, that can be run on mobile operating systems on mobile terminal devices (including mobile phones, pad-like mobile devices other than mobile phones, and other mobile devices and simulators) and the relevant updates, upgrades and fixes
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Cresc Chorus”	Cresc Chorus Limited, a BVI business company incorporated under the laws of the BVI with limited liability and one of the controlling Shareholders of the Company
“Director(s)”	the director(s) of the Company
“Dragon Raja Animation”	the animated series of the literary work Dragon Raja (龍族) series
“Dragon Raja Original Work”	the literary work Dragon Raja (龍族) series in the form of novel
“Eligible Employee”	any full-time employee (excluding any director) of the Company and any subsidiary
“Eligible Participant(s)”	any Eligible Employee who may be invited by the Board to take up Options
“Equity Pledge Agreement”	the equity pledge agreement dated 10 March 2020 and entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders
“Exclusive Agency and Operation Agreement”	the exclusive agency and operation agreement dated 26 August 2022 entered into between the Group, Tencent Shanghai and Shenzhen Tencent Tianyou with respect to the grant of an exclusive and non-transferable right to advertise, promote and operate the Licensed Game in South Korea to the Group by Tencent Shanghai and Shenzhen Tencent Tianyou
“Exclusive Option Agreement”	the exclusive option agreement dated 10 March 2020 and entered into among Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders
“Exercise Price”	the price per Share at which a Grantee may subscribe for the Shares on the exercise of an Option
“Global Offering”	the initial public offering of the Shares for subscription by the public and the institutional, professional, corporate and other investors



“Grant Letter”	the letter pursuant to which RSUs are granted to a Selected Person
“Grantee”	any Eligible Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) his Personal Representative(s) who is/are entitled to any Option in consequence of the death of the original Grantee
“Group”, “we” or “us”	the Company and all of its subsidiaries and companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements, or, where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huai’an Loong”	Huai’an Loong Technology Co., Ltd.* (淮安祖龍科技有限公司), a company established under the laws of the PRC with limited liability on 19 August 2016, and by virtue of certain contractual arrangements, accounted for as our subsidiary
“IFRS”	the International Financial Reporting Standards
“Licensed Game”	the Korean version of a mobile game named 亂世王者
“Licensing Agreement”	the licensing agreement dated 18 June 2022 entered into between the Group and Tencent Penguin with respect to the grant of an exclusive and non-transferable right to (i) adapt and develop the Cooperative Game based on the Dragon Raja Original Work; (ii) publish and operate the Cooperative Game; and (iii) use the related content of the Dragon Raja Animation in the Cooperative Game
“Linzhi Lichuang”	Linzhi Lichuang Information Technology Co., Ltd.* (林芝利創信息技術有限公司), a company established under the laws of the PRC with limited liability on 26 October 2015 and is one of the Registered Shareholders
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date on which the Shares initially commenced their dealings on the Stock Exchange, i.e. 15 July 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

“LuckQ”	LuckQ Technology Limited, a BVI business company incorporated under the laws of the BVI with limited liability and one of the controlling Shareholders of the Company
“Macao”	the Macao Special Administrative Region of the PRC
“MMORPG”	massively multiplayer online role-playing game, a genre of games that combine role-playing games and massively multiplayer online games in which a large number of players interact with one another within a virtual world
“Model Code”	the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules
“Ningbo Longren”	Ningbo Long Ren Enterprise Management Partnership (Limited Partnership)* (寧波龍仁企業管理合夥企業(有限合夥)), a limited partnership enterprise established under the laws of the PRC on 14 December 2015 and is one of the Registered Shareholders
“Ningbo Qiance”	Ningbo Meishan Bonded Port Qian Ce Enterprise Management Partnership (Limited Partnership)* (寧波梅山保稅港區千策企業管理合夥企業(有限合夥)), a limited partnership enterprise established under the laws of the PRC on 28 November 2019 and is one of the Registered Shareholders
“Nomination Committee”	the nomination committee of the Company
“Offer”	an offer for the grant of an Option
“Offer Date”	the date, which must be a Business Day, on which an Offer is made to an Eligible Participant
“Option”	an option to subscribe for the Shares granted pursuant to the Share Option Scheme
“Option Period”	in respect of any particular Option, a period (which may not be later than ten (10) years from the Offer Date of that Option) to be determined and notified by the Directors to the Grantee thereof and, in the absence of such determination, from the Offer Date of such Option to the earlier of (i) the date on which such Option lapses; and (ii) ten (10) years from the Offer Date of that Option
“Participant”	a Selected Person who accepts the offer of the grant of RSUs in accordance with the terms of the RSU Scheme
“Perfect World”	Perfect World Co., Ltd.* (完美世界股份有限公司), a company established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002624)



“Perfect World Games”	Perfect World Games Co., Ltd.* (完美世界遊戲有限責任公司), a company established under the laws of the PRC with limited liability on 14 November 2008
“Perfect World Group”	Perfect World and/or its respective affiliate(s) and/or subsidiaries
“Perfect World Holding”	Perfect World Holding Group Co., Ltd.* (完美世界控股集團有限公司), a company established under the laws of the PRC with limited liability on 14 August 2013
“Perfect World Holding Group”	Perfect World Holding and/or its respective affiliate(s)
“Perfect World Interactive”	Perfect World Interactive Entertainment Co., Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability and holds 16.46% of the Shares as at 31 December 2022
“Powers of Attorney”	the powers of attorney entered into among Beijing Fantasy Mermaid and each of the Registered Shareholders dated 10 March 2020
“Pre-IPO RSU(s)”	restricted share units granted pursuant to the Pre-IPO RSU Scheme
“Pre-IPO RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by the Board on 1 April 2020
“Prospectus”	the prospectus of the Company dated 30 June 2020
“Registered Shareholder(s)”	Beijing Loong, Ningbo Longren, Ningbo Qiance, Perfect World Games and Linzhi Lichuang, as the registered shareholders of Tianjin Loong
“Remuneration Committee”	the remuneration committee of the Company
“Reporting Period”	the year ended 31 December 2022
“Risk Management Committee”	the risk management committee of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“RSU Scheme”	the restricted share unit scheme of the Company approved and adopted by the Shareholders on 22 December 2022, in its present form or as may be amended from time to time
“RSU(s)”	restricted share units granted pursuant to the RSU Scheme
“Selected Person(s)”	person(s) eligible to receive RSUs under the RSU Scheme, who are existing employees, directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of the Company or any member of the Group selected by the Board to be granted RSUs under the RSU Scheme at its discretion

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Share Option Scheme”	the share option scheme in its present form or as may be amended from time to time which was adopted by the Company on the Adoption Date
“Share(s)”	ordinary share(s) of US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Shenzhen Tencent Tianyou”	Shenzhen Tencent Tianyou Technology Company Limited* (深圳市騰訊天遊科技有限公司), a company established in the PRC with limited liability
“SLG”	simulation games, a genre of games that attempt to emulate various activities from real life in the game format
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	for the purpose of this annual report, has the meaning ascribed to it in section 15 of the Companies ordinance (Chapter 622 of the Laws of Hong Kong) and includes companies whose financial results have been consolidated and accounted as the subsidiaries of our Company by virtue of certain contractual arrangements
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Tencent”	Tencent Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 700) and/or its subsidiaries, as the case may be and holds 17.09% of our Shares as at 31 December 2022.
“Tencent Cloud”	Tencent Cloud Computing (Beijing) Company Limited* (騰訊雲計算(北京)有限責任公司), a company established in the PRC and a wholly-owned subsidiary of Tencent
“Tencent Penguin”	Shanghai Tencent Penguin Film Culture Communication Co., Ltd.* (上海騰訊企鵝影視文化傳播有限公司), a company established in the PRC and an entity controlled by Tencent
“Tencent Shanghai”	Tencent Technology (Shanghai) Company Limited* (騰訊科技(上海)有限公司), a company established in the PRC with limited liability
“Termination Date”	close of business of the Company on the date which falls ten (10) years after the Adoption Date





## Definitions

“Tianjin Loong”	Tianjin Loong Technology Co., Ltd.* (祖龍(天津)科技股份有限公司), a Company established under the laws of the PRC with limited liability on 15 April 2015, and by virtue of some contractual arrangements, accounted for as our subsidiary
“Unreal Engine 4” and “Unreal Engine 5”	game engines developed by Epic Games
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

\* *For identification purpose only in this annual report*

## BOARD OF DIRECTORS

### Executive Directors

Mr. Li Qing (*Chairman and chief executive officer*)  
Mr. Bai Wei

### Non-executive Directors

Ms. Liu Ming  
Mr. Lu Xiaoyin

### Independent Non-executive Directors

Mr. Bai Kun  
Mr. Zhu Lin  
Mr. Ding Zhiping

## AUDIT COMMITTEE

Mr. Zhu Lin (*Chairman*)  
Mr. Bai Kun  
Mr. Ding Zhiping

## REMUNERATION COMMITTEE

Mr. Bai Kun (*Chairman*)  
Mr. Ding Zhiping  
Mr. Li Qing

## NOMINATION COMMITTEE

Mr. Li Qing (*Chairman*)  
Mr. Bai Kun  
Mr. Ding Zhiping

## RISK MANAGEMENT COMMITTEE

Mr. Ding Zhiping (*Chairman*)  
Mr. Li Qing  
Mr. Zhu Lin

## JOINT COMPANY SECRETARIES

Ms. Hao Lili  
Ms. Zhang Xiao

## AUTHORIZED REPRESENTATIVES

Mr. Li Qing  
Ms. Zhang Xiao

## AUDITOR

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

## LEGAL ADVISERS

*As to Hong Kong laws*  
Tian Yuan Law Firm LLP  
Suites 3304-3309  
33/F, Jardine House  
One Connaught Place  
Central, Hong Kong

## REGISTERED OFFICE IN CAYMAN ISLANDS

Harneys Fiduciary (Cayman) Limited  
4/F, Harbour Place  
103 South Church Street, P.O. Box 10240  
Grand Cayman KY1-1002  
Cayman Islands



# Corporate Information

## HEADQUARTERS

4/F, No. 8 Hangxing Science Park  
No.11 HePingLi East Street  
Dongcheng District, Beijing  
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Dah Sing Financial Centre  
248 Queen's Road East  
Wanchai, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Fiduciary (Cayman) Limited  
4/F, Harbour Place  
103 South Church Street, P.O. Box 10240  
Grand Cayman KY1-1002  
Cayman Islands

## HONG KONG SHARE REGISTRAR

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

## PRINCIPAL BANKS

China Merchants Bank Co., Ltd.  
Tianjin Wuqing Branch  
Basement Shop No. 695, Jiafeng Building  
Yongyang West Road  
Yangcun Town  
Wuqing District, Tianjin  
PRC

China Everbright Bank Co., Ltd.  
Deshengmen Branch  
11th Floor, Beiguang Plaza  
23 Huangsi Street  
Xicheng District, Beijing  
PRC

Industrial Bank Co., Ltd.  
Beijing Haidian Branch  
1st Floor, Beijing Aerospace CPMIEC Building  
Haidian District, Beijing  
PRC

Standard Chartered Bank (Hong Kong) Limited  
3/F Standard Chartered Bank Building  
4-4A Des Voeux Road Central  
Hong Kong

## COMPANY WEBSITE

[www.zulong.com](http://www.zulong.com)

## STOCK CODE

9990

# Financial Summary

A summary of the results and of the assets and liabilities of the Company and its subsidiaries for the last five financial years, is set out below.

	For the year ended 31 December				
	2022 (RMB million)	2021 (RMB million)	2020 (RMB million)	2019 (RMB million)	2018 (RMB million)
<b>Revenue</b>	<b>584.1</b>	920.8	1,208.8	1067.2	870.1
Cost of revenue	<b>(160.5)</b>	(207.3)	(282.9)	(177.6)	(173.6)
<b>Gross profit</b>	<b>423.6</b>	713.5	925.9	889.6	696.5
Research and development expenses	<b>(746.3)</b>	(705.6)	(540.4)	(389.2)	(327.6)
Selling and marketing expenses	<b>(280.6)</b>	(247.2)	(161.0)	(114.5)	(93.7)
Administrative expenses	<b>(108.2)</b>	(97.9)	(138.3)	(53.0)	(39.2)
Net (allowance)/reversal for impairment on financial assets	<b>(0.2)</b>	2.9	(1.8)	(4.2)	0.3
Other income	<b>3.9</b>	6.7	10.8	14.1	17.0
Other (losses)/gains, net	<b>(63.6)</b>	38.2	(12.1)	24.1	57.7
<b>Operating (loss)/profit</b>	<b>(771.4)</b>	(289.4)	83.1	366.9	311.0
Finance income	<b>23.5</b>	22.1	12.4	8.6	12.7
Finance costs	<b>(6.4)</b>	(10.5)	(13.4)	(17.9)	(5.8)
Finance income/(costs), net	<b>17.1</b>	11.6	(1.0)	(9.3)	6.9
Fair value changes on convertible redeemable preferred shares	<b>-</b>	-	(856.9)	(212.5)	(381.3)
Share of results of investments accounted for using the equity method	<b>(13.5)</b>	(10.0)	(0.5)	-	-
<b>(Loss)/profit before income tax</b>	<b>(767.8)</b>	(287.8)	(775.3)	145.1	(63.4)
Income tax (expense)/credit	<b>(0.7)</b>	(15.5)	16.3	(24.7)	(12.0)
<b>(Loss)/profit for the year</b>	<b>(768.5)</b>	(303.3)	(759.0)	120.4	(75.4)
<b>Non-IFRS measure:</b>					
Adjusted net (loss)/profit <sup>(1)</sup>	<b>(731.9)</b>	(237.7)	218.8	354.5	310.9

Note:

- (1) We define adjusted net (loss)/profit as (loss)/profit for the year adjusted by adding back fair value changes on convertible redeemable preferred shares, share-based compensation expenses, interest expenses accrued from redemption liability and listing expenses. We eliminate the impacts of these items that our management does not consider them to be indicative of our operating performance, as they are either non-cash items or non-recurring expenses. In particular, fair value changes on convertible redeemable preferred shares, interest expenses accrued from redemption liability and listing expenses will not recur after the Listing. Fair value changes on convertible redeemable preferred shares will not recur after the Listing as convertible redeemable preferred shares have been converted into ordinary shares upon the Listing. Interest expenses accrued from redemption liability will not recur after the Listing because the redemption liability is in relation to a put option that was extinguished and ceased to have effect upon the Listing.



# Financial Summary

	<b>As at 31 December</b>				
	<b>2022</b>	2021	2020	2019	2018
	<b>(RMB million)</b>	(RMB million)	(RMB million)	(RMB million)	(RMB million)
<b>Assets, Liabilities and Equity</b>					
Total assets	<b>2,953.3</b>	3,518.1	4,001.8	1,903.2	1,548.7
Total liabilities	<b>363.1</b>	351.7	452.5	1,733.1	1,495.8
Total equity	<b>2,590.2</b>	3,166.4	3,549.3	170.1	52.9

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2022.

## WHOLE-YEAR REVIEW AND OUTLOOK

Archosaur Games is a leading mobile gaming company in China with more than twenty years of research and development experience. We hold the vision of being a top-class gaming company in the world, serving global game players by continuously creating industry-leading games of various genres with excellent online entertainment experience. As at 31 December 2022, we have launched 19 mobile games with a number of regional versions available in more than 170 regional markets in 14 languages. Our product matrix currently includes MMORPG, SLG, female-oriented, shooting, strategy card and other genres.

2022 was a year full of setbacks and changes. In the post-COVID-19 era, the global economy was slowly recovering whereas the digital economy showed a prominent development trend. Taking into account the influence of the market and other multiple factors, the pace of R&D and launch of some of our games have been optimized and adjusted. In addition, the performance of a product we launched in the first half of the year did not live up to our expectations. All these had a certain impact on the Group's financial performance in the short term. However, such challenges and short-term impacts will never alter our long-term ideals and goals. On the contrary, they allow us to further conduct in-depth research on the basis of giving full play to our valuable experience accumulated in terms of game development, operation and iterative upgrades and other aspects so that we can more accurately grasp the preferences of users in the face of an ever-changing market demand and maintain a leading position in the fierce industry competition. We will continue to conduct research intensively relying on our strong technical advantages; we will be insistently committed to the "going out" international expansion; and we will make steady improvement by grasping the organic structure integrating R&D and operation. We believe that, in the ever-changing domestic and foreign markets and the ever-improving industry upgrades going forward, Archosaur Games will stick to our beliefs and seize opportunities, unleashing even greater potential for development, and creating more values that are welcomed by people.

### **Upholding integrity and innovation in the implementation of the strategy of high-quality products**

Integrity is to keep doing the right thing, and innovation is to break through oneself. Upholding integrity and innovation have been the essence and core of our continuous pursuit of high-quality games. Archosaur Games continues to develop high-quality games with a resolute attitude, and with great sincerity. Life Makeover (以閃亮之名) was launched in 2022, which is an ultra-free fashionable female-oriented mobile game developed by the Company with its new generation of female production and planning team as the core. Not only does it have a model with over 100,000 precision, but it is also the first attempt to introduce Unreal Engine 4 into a female-oriented game. It also maximizes the realism of the picture quality using the SSS algorithm. At the same time, the game has achieved innovative gameplay, setting up a "face pinching" system, a "dress-up" gameplay, a "homeland" system, etc. Since its overseas launch in July 2022, Life Makeover (以閃亮之名) has received a high degree of market attention and player recognition. On the first day of its launch in Hong Kong, Macao, Taiwan, Singapore and Malaysia, the game topped on the Top Free Games Chart of the iOS App Store in these five countries and regions, and ranked first on the Google Play Top Games Chart in Hong Kong, Macao and Taiwan. The game was ranked in the two, three and four of the Bestsellers Games Chart of the iOS App Store within a month of its launch in Hong Kong, Macao and Taiwan. The game topped the Bestsellers Games Chart of the iOS App Store respectively in Hong Kong and Taiwan.



## Chairman's Statement

on the day after the launch of its version update in September 2022, and was ranked third, top and second on the Bestsellers Games Chart of the iOS App Store respectively in Hong Kong, Macao and Taiwan upon its version update in February 2023. Launched in Japan in December 2022, the game topped the Top Free Games Chart of the iOS App Store in Japan on the first day of launch, becoming one of the most eye-catching Chinese games in the Japanese mobile game market at the end of 2022.

Currently, Life Makeover (以閃亮之名) has obtained the dual-terminal game publication numbers for mobile and PC games in mainland China in early 2023. The layout of the dual-terminal game publication numbers also indicates that we will expand this game on multiple platforms including the PC. We believe that, with the development and unlocking of more gameplays and the opening up of more platform channels, the game is bound to explode in a more surprising way. From World of Kings (萬王之王3D), Dragon Raja (龍族幻想) to Life Makeover (以閃亮之名), we continue to roll out new high-quality games. While the product matrix is constantly enriched, the value of our original IPs has also been iteratively improved.

### **Promoting the combination and expansion of genres in the exploration of three-dimensional multiple-platform development**

Our continuous deep-plowing in MMORPG over the years has allowed us to accumulate solid and valuable experience. While devoting ourselves to the development and operation of this game genre, we are also actively exploring product upgrades and expansion on the basis of giving full play to the advantages of our R&D strength in MMORPG. Promoting the organic combination of other mainstream genres with MMORPG is one of the directions we aim at in the future. In 2023, we expect to launch Avatar: Reckoning (阿凡達：重返潘多拉), a revolutionary product with top-level IP combining MMORPG and shooting. The release of this product also means that we have made a foray into the track of multiplayer online shooting game genre leveraging our advantages in traditional MMORPG. According to statistics from the Internet Movie Database (IMDb), both the film Avatar and its sequel Avatar: The Way of Water have recorded a global box-office revenue exceeding US\$2 billion, ranking among the top box-office records in film history. This game not only fully embodies the essence of the two Avatar films, but also uses Unreal Engine 4 to sculpt details such as the environment, weather, animals and plants, perfectly presenting the colorful Avatar world in the form of a game in front of players. By now, the game's third overseas test has been completed. With "Avatar" being the world's top-notch IP, Archosaur Games equipped with top-notch research and development capabilities on mobile platform game, and Tencent possessing the top-notch publishing capabilities on mobile platform game, the absolute advantages of the integrated "IP-R&D-Publishing" are expected to be fully displayed and reflected in this product. Starting with Avatar: Reckoning (阿凡達：重返潘多拉), we will continue to deepen genre innovation according to market demand, and launch products combining MMORPG, action, shooting and other elements. It is expected that these innovative game products will meet with players one after another in the near future.

In terms of broadening new tracks, in addition to the strong breakthrough of Life Makeover (以閃亮之名) in the female-oriented game market, we will continue to deep plow other genres such as SLG and strategy cards and explore the diversified expansion of genres. Following our first SLG product Under the Firmament (鴻圖之下), another SLG product Sango Heroes (三國群英傳) developed by us using well-known IP has also entered the game testing stage. There is also a strategy card game (Project E) adapted and developed based on the Dragon Raja (龍族) series of novel and animation, a well-known IP, which is planned to be launched later. The iteration and launch of multiple genres and products have reflected Archosaur Games' strong capabilities in the R&D and publishing of games, and the abundant product reserves have also highlighted our broadening of product tracks and continuous innovation, committed to the pursuit of and belief in high-quality game product matrix across multiple fields.

Multiple-platform expansion on the PC side and the host side is also one of the directions we are exploring. In future game projects, taking into account the genre characteristics of the game itself, proactive attempts will be made to carry out synchronous multiple-platform development and operation for products with multi-platform development potential such as the action and shooting genres. We firmly believe that the horizontally expanded product tracks coupled with the vertically opened up multiple-platform operations will definitely produce geometric effects and turn into a steady stream of driving power to boost the long-term development of Archosaur Games.

## **Adhering to the globalized strategy with a focus on China and a global perspective**

The globalized strategic layout is an important direction of Archosaur Games for development. In terms of product layout, taking the “feasibility for global publishing” as the premise of project initiation, we lay the fundamentals for global promotion as early as the product incubation stage to ensure that the product is player-friendly worldwide. In terms of publishing models, through years of continuous output of high-quality products on different tracks, we continue to learn from experience and absorb nourishment from game operations and market feedback in various countries, conduct in-depth analysis and research on players and users in different regional markets, and optimize and upgrade game versions according to the characteristics of different users in each region, so as to build a more targeted product promotion strategy and publishing model with user needs as the core. The early-bird release of Life Makeover (以閃亮之名) in the overseas market and its excellent market performance are a full reflection of the great importance we attach to the globalized strategy as well as a demonstration of the strong strength of Archosaur Games in the overseas market. In addition, the top IP products that we cooperate with world-renowned developers have enhanced Archosaur Games' influence on a global scale. The smooth progress of the Avatar mobile game project Avatar: Reckoning (阿凡達：重返潘多拉) symbolizes that Archosaur Games has won the recognition of world-renowned developers on high-quality R&D and operation, and a firm confidence has also been established for us in further developing overseas markets.

We have strong advantages in Hong Kong, Macao, Taiwan, Southeast Asia and other Asian regions. In 2022, we have achieved strong expansion in the Japanese and South Korean markets. The continuous polishing, continuous attraction of outstanding talents and continuous roll-out of game products by the South Korean and Japanese publishing teams all reflect our determination to develop these markets in the long-term. In the European and American markets with high paying users, we have also achieved outstanding results and have occupied a stable and considerable market share in these regions through diversified products and customized strategies. Going forward, we will adopt a more open attitude in making full use of the different advantages of the two models of self-publishing and entrusted publishing based on the product, determining the optimal publishing model by choosing either one or a combination of both, so as to develop the product market and expand the brand influence.

In the face of risks recurring from time to time in the game industry in various countries, one of the motivations for us to unswervingly implement the globalized strategy is to further develop overseas markets and make a comprehensive layout in multiple regional markets in order to avoid unstable factors in a single market. We believe that the value of our prospective layout and continuous expansion in overseas markets as well as the strong competitive advantages accumulated based on this, will gradually emerge in the future.





## Chairman's Statement

### **Promoting iterative personnel upgrading to achieve improvement in team strength and product quality**

As at 31 December 2022, the total number of full-time staff was approximately 1,200, of which the staff in the research and development center and the staff in the publishing and operation center accounted for approximately 78% and approximately 12% of the total respectively. In 2022, the Company's overall personnel structure continued to undergo iterative upgrading. While committed to cost reduction and efficiency increase, we have absorbed high-calibre talents in the industry and explore cost-effective potential talents with an open attitude, and at the same time provide employees with competitive salary and incentives. By encouraging innovation, opening up professional development channels and other means, we have been able to attract and retain talents, cultivating employees to upgrade from "human" resources to "talent" resources, and guiding employees to realize their own value while helping the enterprise develop, thus a strong cohesive force has taken shape internally to form a united and enterprising corporate culture.

On the other hand, adhering to the employment philosophy of "using people according to their expertise and sharing tasks according to people's abilities", Archosaur Games comprehensively evaluates the capabilities of R&D, publishing and other teams at the group level, and allocates talents with relevant advantages for different regions and product genres, so that the staff potential can be fully tapped and that products in various regions and genres can receive maximum professional support at a reasonable cost, thus achieving two-way improvement in efficiency and effectiveness on the basis of stimulating the potential of employees and mobilizing their enthusiasm. In addition, we will continue to polish internal teams by continuously launching game products in multiple regions and tracks, promoting the continuous improvement of game product quality while enhancing personnel strength.

### **Keeping pace with the development trend and staying at the forefront of technological innovation to drive product experience upgrades and wall-breaking development**

Continuous breakthrough and innovation and continuous improvement and exploration in the technology field are our consistent persistence as well as the core factor for us to maintain technology leadership in the industry. As a developer in the industry which was the first to conduct research on and make use of the world-leading Unreal Engine in developing mobile games, and has quickly built a next-generation process based on Unreal Engine 4, we keep improving and exploring. Up to now, we have successfully launched five products based on game products developed using Unreal Engine 4, ranking among the top in the industry. In 2022, Epic Games, which has maintained in-depth cooperation with us, officially launched Unreal Engine 5. As one of the five mainland Chinese developers that cooperate with Epic Games on this technology, we have conducted in-depth research on Unreal Engine 5 and have greatly improved and optimized high-frame-rate game screens and the logical sense of objects utilizing its virtualized micro-polygon geometry system, as a result, we have forged the first batch of game products using this technology while significantly improving the efficiency of art production as well as operation and maintenance with the use of the technology, running at the forefront of the Unreal Engine 5 technology applications field. Our product reserves include high-quality cross-era games that use Unreal Engine 5 to create exquisite scene rendering and ultra-high on-screen fidelity. It is foreseeable that our advance layout of Unreal Engine 5 will bring us a first-mover advantage in future competition.

In terms of artificial intelligence-generated content (AIGC), we keep pace with the technological development trend, and combining our strong technologies and R&D advantages, actively explore the application and expansion of artificial intelligence in game products. Through the application and in-depth training of different artificial intelligence tools, we accurately grasp the spontaneity and creativity characteristics of artificial intelligence in upgrading our game products in multiple dimensions such as algorithm models, content design, art creation, and intelligent interaction, and the natural language system built by the deep application of artificial intelligence technology is used to create NPCs with independent personality and thus enhancing the player's sense of reality and immersion in the virtual world.

We will leverage a combination of new technologies in a more open way to fully realize game products equipped with highly creative and intelligent applications, transform technological advantages into product advantages, and rely on continuous technological improvement and deep plowing to achieve a win-win situation in terms of game quality and R&D efficiency.

## Prospects

Looking forward to 2023, we expect that the game industry in mainland China will burst out with new vitality. While grasping the domestic market, we will continue to expand overseas markets. A variety of game products represented by Avatar: Reckoning (阿凡達：重返潘多拉) and Life Makeover (以閃亮之名) will be launched successively in mainland China and other parts of the world. On the other hand, we will continue to set off from the essence of the game, strictly control the quality of the game, and dig deep into the core gameplay of the game, so that every high-quality game of Archosaur Games is created with the spirit of ingenuity. We believe that we will surely usher in a new chapter of development given the long-term expansion of the multi-genre track, the in-depth layout of the high-quality product and globalized strategy, the absorption and cultivation of high-quality talents, and the continuous innovation of technology.

## Appreciation

In 2023, we will keep in mind the mission of bringing happiness to players and creating value for shareholders, and be a game company that is always full of enthusiasm and creativity. On behalf of the Board, I would like to take this opportunity to express our heartfelt gratitude to all the employees and managers of the Group for their dedicated efforts in 2022, as well as to our investors and people from all sectors.

## Li Qing

*Chairman of the Board*

Archosaur Games Inc.



# Financial Performance Highlights

	For the year ended 31 December		
	2022 (RMB million)	2021 (RMB million)	Change %
<b>Revenue</b>	<b>584.1</b>	920.8	(36.6%)
Cost of revenue	<b>(160.5)</b>	(207.3)	(22.6%)
<b>Gross profit</b>	<b>423.6</b>	713.5	(40.6%)
Research and development expenses	<b>(746.3)</b>	(705.6)	5.8%
Selling and marketing expenses	<b>(280.6)</b>	(247.2)	13.5%
Administrative expenses	<b>(108.2)</b>	(97.9)	10.5%
Net (allowance)/reversal for impairment on financial assets	<b>(0.2)</b>	2.9	(106.9%)
Other income	<b>3.9</b>	6.7	(41.8%)
Other (losses)/gains, net	<b>(63.6)</b>	38.2	(266.5%)
<b>Operating loss</b>	<b>(771.4)</b>	(289.4)	166.6%
Finance income	<b>23.5</b>	22.1	6.3%
Finance costs	<b>(6.4)</b>	(10.5)	(39.0%)
Finance income, net	<b>17.1</b>	11.6	47.4%
Share of results of investments accounted for using the equity method	<b>(13.5)</b>	(10.0)	35.0%
<b>Loss before income tax</b>	<b>(767.8)</b>	(287.8)	166.8%
Income tax expense	<b>(0.7)</b>	(15.5)	(95.5%)
<b>Loss for the year</b>	<b>(768.5)</b>	(303.3)	153.4%
<b>Non-IFRS measure:</b>			
Adjusted net loss <sup>(1)</sup>	<b>(731.9)</b>	(237.7)	207.9%

Note:

- (1) We define adjusted net loss as loss for the year adjusted by adding back share-based compensation expenses. We eliminate the impact of the item that our management does not consider it to be indicative of our operating performance as it is non-cash in nature.

## BUSINESS REVIEW

Our mission is to be a top-class gaming company in the world, serving global game players by continuously creating industry-leading games of various genres with excellent online entertainment experience.

We are a pioneer in China's mobile game industry focusing on developing high-quality mobile MMORPGs, SLGs, female-oriented, strategy cards and other genres. Our proven capabilities in developing high-quality mobile games and the focus on continuous deep-engagement in core game experience genre have won excellent market reputation.

As at the date of this annual report, we have industry talents laid out in Beijing, Shanghai, Guangzhou, Chengdu, Changchun, Hainan and South Korea, forming a continuous improving organic model of integrating operation and research and development with Beijing working as the center, gradually expanding to regions nationwide where the game industry is relatively developed and overseas, and building our talent pool in all areas by drawing upon the experience gained on key points.

In terms of globalized strategic layout, we continue to export high quality products in different countries and regions, conduct in-depth analysis of players and users in each market, and build more targeted product promotion strategies and publishing models that focus on user needs. The first release of Life Makeover (以閃亮之名) in overseas markets and its excellent market performance have fully demonstrated the great importance we attach to the globalized strategy and the strength of Archosaur Games in overseas markets. In addition, our top IP products in cooperation with internationally renowned manufacturers have enhanced the influence of Archosaur Games on a global scale. The smooth progress of the Avatar mobile game project Avatar: Reckoning (阿凡達：重返潘多拉) signifies the recognition of the internationally renowned manufacturers in the research and development and operation of high-quality games of Archosaur Games, and enables us to further explore overseas markets with solid confidence.

### Our Existing Games

We mainly focus on the development of mobile MMORPGs, SLGs, female-oriented, shooting and strategy card games and other genres, and offer a high-quality and diversified mobile games portfolio with excellent market reputation. As at 31 December 2022, we had launched 19 high-quality mobile games with multiple regional versions in 14 languages available in more than 170 regional markets, including Hong Kong, Macao, Taiwan, Southeast Asia, South Korea, Japan, Europe and the Americas. The cumulative number of global registered players of 13 mobile games in operation had surpassed 140 million, among which (i) the global cumulative gross billings generated by a mobile game had exceeded RMB4 billion; (ii) the global cumulative gross billings generated by 3 mobile games had exceeded RMB3 billion; (iii) the global cumulative gross billings generated by 6 mobile games had exceeded RMB1 billion; and (iv) the gross billings generated by 7 mobile games had exceeded RMB100 million in the first month after they were launched.



## Management Discussion and Analysis

Life Makeover (以閃亮之名) was launched in the second half of 2022 in Hong Kong, Macau, Taiwan, Singapore, Malaysia and Japan, and officially launched in mainland China in March 2023. It is an ultra-free fashionable female-oriented game which was developed by new generation of female production and planning team of the Company and has attained the top level on the mobile platform both in terms of on-screen precision and material texture complexity. The game topped the Top Free Games Chart of the iOS App Store in Hong Kong, Macao, Taiwan, Singapore, Malaysia and Japan on the first day of launch and the Google Play Top Games Chart in Hong Kong, Macao and Taiwan. The game was ranked in the top two, three and four of the Bestsellers Games Chart of the iOS App Store respectively within a month of its launch in Hong Kong, Macao and Taiwan. The game topped the Bestsellers Games Chart of the iOS App Store in Hong Kong and Taiwan on the day after the launch of its version update in September 2022, and ranked the third, first and second place on the Bestsellers Games Chart of the iOS App Store in Hong Kong, Macau and Taiwan upon its version update in February 2023. In December 2022, it entered top 20 of the Bestsellers Games Chart of the iOS App Store in Japan within two weeks of its launch. In March 2023, the game topped the Top Free Games Chart of the iOS App Store in mainland China on its first day of launch and dominated the chart for four consecutive days, with more than RMB10 million gross billings on the first day, and entered top 10 of the Bestsellers Games Chart of the iOS App Store in mainland China on the next day of its launch. In mid-April 2023, Life Makeover (以閃亮之名) launched its “Feast under the Moon” (月下盛筵) in mainland China, and it entered top 5 of the Bestsellers Games Chart of the iOS App Store in mainland China on the first day. As at the date of this annual report, Life Makeover (以閃亮之名) has generated over RMB100 million gross billings in mainland China. During the development, the game has incorporated customized content of traditional Chinese culture such as Sichuan embroidery to meet players’ personalized needs and to show the unparalleled charm of traditional Chinese art to the public in different regions. The game will also be launched in Europe, the Americas and Southeast Asia later. Meanwhile, the game is expected to expand on PC and other platforms. It is believed that, with the development and unlocking of more gameplay and the opening up of more platform channels, the game will definitely present more surprising performance. The game has built up an excellent reputation and attracted a large number of fans with its top-level quality. Such a good development model will certainly form a healthy game ecology, which will become a strong driving force for the development of the business and bring positive and considerable long-term revenue to the Company.

Dragon Raja (龍族幻想) is the first next generation real 3D mobile MMORPG developed by Unreal Engine 4 in China. The game had been a huge success in mainland China and had performed exceptionally well outside of mainland China. The European, American and Southeast Asian versions have been launched for about three years and the game has a very stable long-term performance. The game continued its version update in 2022 with a joint promotion with Disney, an internationally renowned manufacturer. At present, the game has started its third anniversary season activity overseas, actively maintaining the healthy long-term ecology of the game, and contributing more stable revenue to the Company. As at 31 December 2022, the cumulative gross billings of the game had exceeded RMB4.2 billion and the cumulative number of global registered players of the game was more than 42 million.

Under the Firmament (鴻圖之下) as our first mobile SLG developed by Unreal Engine 4 has been successively launched in mainland China, Japan, Southeast Asia, Hong Kong, Macao, Taiwan, Europe and the Americas since 2020, and has gained excellent performance and long-term stability. In January 2022, we published the game in South Korea and it ranked 4th on the Top Free Games Chart and 11th on the Bestsellers Games Chart of Google Play within ten days of launch, accumulating valuable publishing experience in the Korean market for the Company with successful achievements. As at 31 December 2022, the cumulative gross billings of Under the Firmament (鴻圖之下) was over RMB1.4 billion, and the number of accumulated registered players reached more than 6.9 million.

# Management Discussion and Analysis



In addition to the above games, games under operation, including Fantasy Zhuxian (夢幻誅仙), World of Kings (萬王之王 3D), Love & Sword (御劍情緣), Loong Craft (六龍爭霸) and The New World (夢想新大陸) had a relatively stable performance and continued to make contributions to the Group's revenue in 2022.

## Our Game Pipeline

To build up a diversified game portfolio across a wide range of genres, ten game products are expected to be launched globally over the period from 2023 to 2025, covering the genres of MMORPGs, SLGs, female-oriented, shooting, strategy card games and others.

As at the date of this annual report, the table below sets out certain information regarding our new games which are expected to be launched for the periods indicated, including title, genre, IP source, development stage, expected launch year and major markets.

Title <sup>(1)</sup>	Genre <sup>(1)</sup>	IP source <sup>(1)</sup>	Development stage as at the date of this annual report <sup>(1)</sup>	Expected launch year <sup>(1)</sup>	Major markets <sup>(1)(2)</sup>
<b>2023</b>					
Avatar: Reckoning (阿凡達：重返潘多拉)	MMORPG + Shooting	Licensed IP	Game Testing	2023	Worldwide
Life Makeover (以閃亮之名) <sup>(3)</sup>	Female Oriented Game	Original IP	— <sup>(3)</sup>	2023	Mainland China, Europe, the Americas, Southeast Asia
Sango Heroes (三國群英傳)	SLG	Licensed IP	Game Testing	2023	Asia
Project Code: IM <sup>(4)</sup>	Card RPG Game	Original IP	Game Production	2023	Asia
<b>2024</b>					
Project D <sup>(4)</sup>	MMORPG	— <sup>(4)</sup>	Game Proposal	2024	Worldwide
Project Code: Reborn <sup>(4)</sup>	Open World Role-Playing Game +	Original IP	Game Production	2024	Worldwide
Project E <sup>(4)</sup>	Strategy Card Game	Licensed IP	Game Proposal	2024	Worldwide
<b>2025</b>					
Project F <sup>(4)</sup>	MMORPG+	— <sup>(4)</sup>	Game Proposal	2025	Worldwide
Project G <sup>(4)</sup>	MMORPG + Action	— <sup>(4)</sup>	Game Proposal	2025	Worldwide
Project H <sup>(4)</sup>	MMORPG + Shooting	— <sup>(4)</sup>	Game Proposal	2025	Worldwide

### Notes:

- (1) The game pipeline is for indicative purpose only as at the date of this annual report. The title, genre, expected launch year, major markets, IP source and other information of each game in the pipeline may be subject to further changes according to their respective development and pre-approval status.
- (2) The major markets refer to target publishing markets. The games will be launched successively in different regions according to their respective publishing plans.
- (3) Life Makeover (以閃亮之名) was launched in mainland China on 24 March 2023.
- (4) The game title or IP status, as applicable, of the respective game is pending as at the date of this annual report.



## Management Discussion and Analysis

The introduction of several new games in our game pipeline is provided as follows:

Avatar: Reckoning (阿凡達：重返潘多拉) is an innovative product that combines MMORPG and shooting. The release of this product also means that Archosaur Games has stepped into the track of multiplayer online shooting game genre. The game combines the player-vs-environment (PvE) and player-vs-player (PvP) in an innovative way and further enhances the social attributes, allowing players to enjoy the exciting experience of different combat modes while leveling up their Avatar character through the development game play. Players can freely choose single player, team, PvP and other modes to explore the amazing planet Pandora. According to data from the Internet Movie Database (IMDb), both the film Avatar and its sequel Avatar: The Way of Water have recorded a global box-office revenue exceeding US\$2 billion, ranking among the top box-office records in film history. The exquisite production of Avatar: Reckoning (阿凡達：重返潘多拉) not only fully embodies the essence of the two Avatar films, but also uses Unreal Engine 4 to sculpt details such as the environment, weather, animals and plants, perfectly presenting the colorful Avatar world in the form of a game in front of players. At present, the game has completed the third test overseas and constantly upgraded the 3C quality, optimized the experience of the gun shooting, operation and action, and significantly improved the graphics, IP reproduction, game performance and compatibility with different hardware. In the future, the game will start paid testing. The product will present more eye-catching performance through the continuous analysis of the previous testing data and the continuous optimization and upgrading of the game content. On 27 June 2022, the game was first exposed in the mainland China market, which obtained a lot of media exposure and high market attention. With “Avatar” being the world’s top-notch IP, Archosaur Games equipped with top-notch research and development capabilities on mobile platform game, and Tencent possessing the top-notch publishing capabilities on mobile platform game, the absolute advantages of the integrated “IP-R&D-Publishing” are expected to be fully displayed and reflected in this product.

Sango Heroes (三國群英傳) is a SLG product based on a well-known IP. It inherits the core strengths of Under the Firmament (鴻圖之下), and enriches the differentiated gameplay to create a more diverse battle strategy and battle experience. The game is currently on the testing stage.

Project Code: IM is a mobile Chinese-style card RPG game powered by Unreal Engine 4.

Project E is a strategy card game adapted and developed according to the original work of Dragon Raja (龍族).

Project Code: Reborn is a multi-platform open world role-playing + product powered by Unreal Engine 5.

During the Reporting Period, we recorded revenue of RMB584.1 million, representing a decrease of 36.6% as compared with RMB920.8 million for the same period in 2021, which was primarily attributable to (i) a new game published in mainland China in the first half of 2022 did not perform as well as expected; (ii) the postponement of obtaining the game publication number as scheduled for a game planned to be published in 2022 occurred leading to a delay in game launching; and (iii) the revenue from certain games that have been launched for a long time decreased, which is in line with the normal game lifecycles. In the future, with the expansion of our product genres from MMORPGs and SLGs to female-oriented, shooting, strategy cards and other more diversified games, and with a variety of styles and the continuous improvement of our organic model of integrating operation and research and development, the lifecycle of our games is expected to be further extended, which will make a more stable and sustainable contribution to the Group’s revenue.



## Impact of COVID-19

Since the worldwide outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been issued across China and other countries in the world.

The foremost priority for the Group is to provide our employees with a safe and healthy working environment during the COVID-19 pandemic, maintaining a firm grasp of all applicable obligations (whether mandated or voluntary). The Group has adopted precautionary measures including online meetings and work from home for our staff to minimise the risk of transmission of COVID-19.

Due to the nature of the gaming industry and benefiting from the Group's sufficient hygiene measures and stable relationships with our suppliers and customers, the COVID-19 outbreak did not have any material adverse impact on business operations, financial performance or working capital of the Group.

## FINANCIAL REVIEW

### Revenue

The following table sets forth the breakdown of our revenue by business segment for the years indicated:

	For the year ended 31 December			
	2022		2021	
	(RMB million)	% of total revenue	(RMB million)	% of total revenue
Development and licensing	<b>238.4</b>	<b>40.8%</b>	472.4	51.3%
– Revenue share	<b>215.3</b>	<b>36.8%</b>	444.9	48.3%
– Non-refundable fixed licensing fees	<b>23.1</b>	<b>4.0%</b>	27.5	3.0%
Integrated game publishing and operation	<b>345.4</b>	<b>59.1%</b>	448.4	48.7%
Others	<b>0.3</b>	<b>0.1%</b>	–	–
<b>Total</b>	<b>584.1</b>	<b>100.0%</b>	920.8	100.0%

For the year ended 31 December 2022, our revenue from development and licensing was RMB238.4 million, representing a decrease of 49.5% from RMB472.4 million for the year ended 31 December 2021, and our revenue from integrated game publishing and operation was RMB345.4 million, representing a decrease of 23.0% from RMB448.4 million for the year ended 31 December 2021.





# Management Discussion and Analysis

The following table sets forth the breakdown of our revenue segment by geography for the years indicated:

	For the year ended 31 December			
	2022		2021	
	(RMB million)	% of total revenue	(RMB million)	% of total revenue
Mainland China	179.3	30.7%	385.2	41.8%
Overseas	404.8	69.3%	535.6	58.2%
<b>Total</b>	<b>584.1</b>	<b>100.0%</b>	<b>920.8</b>	<b>100.0%</b>

For the year ended 31 December 2022, our revenue generated from mainland China was RMB179.3 million, representing a decrease of 53.5%, from RMB385.2 million for the year ended 31 December 2021, and our revenue generated from markets outside mainland China was RMB404.8 million, representing a decrease of 24.4%, from RMB535.6 million for the year ended 31 December 2021.

The decrease in the revenue was mainly attributable to (i) a new game published in mainland China in the first half of 2022 did not perform as well as expected; (ii) the postponement of obtaining the game publication number as scheduled for a game planned to be published in 2022 occurred leading to a delay in game launching; and (iii) the revenue from certain games that have been launched for a long time decreased, which is in line with the normal game lifecycles.

## COST OF REVENUE

The following table sets out a breakdown of our cost of revenue by nature in absolute amounts and as percentages of our cost of revenue for the years indicated:

	For the year ended 31 December			
	2022		2021	
	(RMB million)	% of total cost of revenue	(RMB million)	% of total cost of revenue
Commissions charged by distribution channels and payment channels	106.5	66.4%	132.5	63.9%
Revenue share to IP holders	19.9	12.4%	37.3	18.0%
Bandwidth and servers custody fee	16.2	10.1%	16.0	7.7%
Employee benefit expenses	12.1	7.5%	9.8	4.7%
Depreciation and amortization charges	2.1	1.3%	7.0	3.4%
Others	3.7	2.3%	4.7	2.3%
<b>Total</b>	<b>160.5</b>	<b>100.0%</b>	<b>207.3</b>	<b>100.0%</b>

Our cost of revenue primarily consisted of (i) commissions charged by distribution channels and payment channels, and (ii) revenue share to IP holders and (iii) bandwidth and servers custody fee. Our cost of revenue decreased to RMB160.5 million for the year ended 31 December 2022 as compared with RMB207.3 million for the year ended 31 December 2021, which was mainly attributable to a decrease in commissions charged by distribution channels and payment channels and a decrease in revenue share to IP holders. The decline was in line with the decrease in the total revenue.

## GROSS PROFIT AND GROSS PROFIT MARGIN

For the year ended 31 December 2022, the gross profit of the Group decreased by 40.6% to RMB423.6 million as compared with RMB713.5 million for the year ended 31 December 2021, which was primarily attributable to the decrease in revenue. The gross profit margin of the Group decreased to approximately 72.5% for the year ended 31 December 2022 from 77.5% for the year ended 31 December 2021, mainly attributable to the proportion of the revenue generated from development and licensing business and the proportion of the revenue generated from integrated game publishing and operation business was 40.8% and 59.1% respectively for the year ended 31 December 2022, as compared with 51.3% and 48.7% respectively for the corresponding period in 2021. It represented a decrease in revenue generated from development and licensing business as a percentage to our total revenue, and generally the gross profit margin of development and licensing business was higher than integrated game publishing and operation business.

## RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses primarily consisted of (i) employee benefit expenses; (ii) outsourced technical services; and (iii) depreciation and amortization charges. For the year ended 31 December 2022, our research and development expenses increased by 5.8% to RMB746.3 million as compared with RMB705.6 million for the year ended 31 December 2021, mainly attributable to the increase in employees' remuneration.

## SELLING AND MARKETING EXPENSES

Our selling and marketing expenses primarily consisted of (i) promotion and advertising expenses; and (ii) employee benefit expenses. For the year ended 31 December 2022, our selling and marketing expenses increased by 13.5% to RMB280.6 million as compared with RMB247.2 million for the year ended 31 December 2021, mainly attributable to the increase in employees' remuneration.

## ADMINISTRATIVE EXPENSES

Our administrative expenses primarily consisted of (i) employee benefit expenses; (ii) auditors' remuneration and other professional consulting fees; and (iii) utilities and office expenses. For the year ended 31 December 2022, our administrative expenses increased by 10.5% to RMB108.2 million as compared with RMB97.9 million for the year ended 31 December 2021, mainly attributable to the increase in employees' remuneration.

## OTHER INCOME

For the year ended 31 December 2022, our other income decreased by 41.8% to RMB3.9 million as compared with RMB6.7 million for the year ended 31 December 2021, due to the decrease in government grants.



# Management Discussion and Analysis

## **OTHER (LOSSES)/GAINS, NET**

Our net other (losses)/gains primarily consisted of (i) (losses)/gains on financial instruments at fair value through profit or loss; and (ii) net foreign exchange (losses)/gains. For the year ended 31 December 2022, the net other losses amounted to RMB63.6 million as compared with net other gains of RMB38.2 million for the year ended 31 December 2021, mainly attributable to the (i) losses on the financial instruments at fair value through profit or loss due to fluctuations in the global and PRC capital markets in 2022 and (ii) foreign exchange losses.

## **FINANCE INCOME, NET**

Finance income represented interest income from bank deposits, including bank balance and term deposits. Finance costs primarily consisted of interest expenses accrued from our lease liabilities and bank charges. For the year ended 31 December 2022, the net finance income increased by 47.4% to RMB17.1 million as compared with RMB11.6 million for the year ended 31 December 2021, mainly attributable to the decrease in interest expenses accrued from our lease liabilities and bank charges.

## **INCOME TAX EXPENSE**

Our income tax expense consisted of current income tax and deferred income tax. For the year ended 31 December 2022, our income tax expense decreased by 95.5% to RMB0.7 million as compared with RMB15.5 million for the year ended 31 December 2021, mainly attributable to the balance of deductible losses which can be utilized against the future taxable profit had been reversed before 31 December 2021 and would not have any impact on deferred income tax for the year ended 31 December 2022.

## **ADJUSTED NET LOSS**

The adjusted net loss for the year ended 31 December 2022 amounted to RMB731.9 million as compared with adjusted net loss of RMB237.7 million for the year ended 31 December 2021. Such increase of loss was primarily attributable to (i) the decrease in our revenue, (ii) the increase in employees' remuneration and (iii) the loss on the financial instruments at fair value through profit or loss.

The Company believes that adjusted net loss for the year ended 31 December 2022, as compared with loss for the year ended 31 December 2022 as reported under the IFRS, can better reflect the underlying operating performance of the Group as well as facilitate year to year comparison. The use of these non-IFRS measures has limitations as an analytical tool, and one should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies.

# Management Discussion and Analysis



The following table sets forth the reconciliations of the Group's non-IFRS financial measures for the year ended 31 December 2022 and 2021 to the nearest measures prepared in accordance with IFRS.

	For the year ended 31 December	
	2022 (RMB million)	2021 (RMB million)
<b>Reconciliation of loss for the year to adjusted net loss for the year:</b>		
<b>Loss for the year</b>	<b>(768.5)</b>	(303.3)
Add:		
Share-based compensation expenses	<u>36.6</u>	<u>65.6</u>
<b>Adjusted net loss for the year</b>	<b><u>(731.9)</u></b>	<b><u>(237.7)</u></b>

## LIQUIDITY AND FINANCIAL RESOURCES

We have historically funded our cash requirements principally from cash generated from operations, and to a lesser extent, equity financing. We adopt a prudent treasury management policy to ensure that our Group maintains a healthy financial position. Taking into account the financial resources available to the Group, including cash and cash equivalents on hand, cash generated from operations and available facilities of the Group, and the net proceeds from the issuance of ordinary shares relating to the initial public offering, and after diligent and careful investigation, the Directors are of the view that the Group has sufficient working capital required for the Group's operations at present.

As at 31 December 2022, the Group has net current assets of RMB2,007.0 million and cash and cash equivalents, term deposits and restricted cash of RMB1,613.7 million, which were mainly denominated in RMB, US\$ and HK\$.

As at 31 December 2022, the Group's total equity attributable to owners of the Company amounted to RMB2,590.2 million, compared with RMB3,166.4 million as at 31 December 2021, representing a decrease of 18.2%. The decrease was mainly attributable to the operating loss for the year ended 31 December 2022.



# Management Discussion and Analysis

The following table sets out our cash flows for the years indicated:

	For the year ended 31 December		
	2022 (RMB million)	2021 (RMB million)	Change (%)
Net cash used in operating activities	<b>(514.5)</b>	(151.7)	239.2%
Net cash generated from/(used in) investing activities	<b>85.7</b>	(1,086.6)	(107.9)%
Net cash used in financing activities	<b>(118.3)</b>	(114.8)	3.0%
Net decrease in cash and cash equivalents	<b>(547.1)</b>	(1,353.1)	(59.6)%
Cash and cash equivalents at the beginning of the year	<b>1,672.3</b>	3,055.7	(45.3)%
Exchange gains/(losses) on cash and cash equivalents	<b>107.8</b>	(30.3)	(455.8)%
Cash and cash equivalents at the end of the year	<b>1,233.0</b>	1,672.3	(26.3)%

## Operating Activities

For the year ended 31 December 2022, net cash used in operating activities was RMB514.5 million, compared with RMB151.7 million used in operating activities for the year ended 31 December 2021, representing an increase of 239.2%. The increase was mainly attributable to a decrease in revenue and an increase in employees' remuneration.

## Investing Activities

For the year ended 31 December 2022, net cash generated from investing activities was RMB85.7 million, compared with RMB1,086.6 million used in investing activities for the year ended 31 December 2021, mainly attributable to proceeds from maturity of term deposit and less investments in private equity, venture capital and other funds.

## Financing Activities

For the year ended 31 December 2022, net cash used in financing activities was RMB118.3 million, compared with RMB114.8 million used in financing activities for the year ended 31 December 2021.

## GEARING RATIO

As at 31 December 2022, our gearing ratio, which is calculated as total debt divided by total assets, was 12.3%, as compared with 10.0% as at 31 December 2021.

## CAPITAL EXPENDITURE

Our capital expenditure comprised expenditures on purchases of intangible assets and purchases of property, plant and equipment. For the year ended 31 December 2022 and 2021, total capital expenditure amounted to RMB40.6 million and RMB120.1 million respectively, representing a decrease of 66.2%. The decrease was mainly attributable to the decrease in purchases of intangible assets.

## **SIGNIFICANT INVESTMENTS HELD/FUTURE PLANS FOR SIGNIFICANT INVESTMENTS OR CAPITAL ASSETS**

As at 31 December 2022, there was no significant investment held by the Group or future plans for significant investments or capital assets, and none of each individual investment held by the Group constituted 5% or above of the total assets of the Group as at 31 December 2022.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

For the year ended 31 December 2022, there was no material acquisitions or disposals of subsidiaries, associates and joint ventures.

## **CHARGE ON ASSETS**

As at 31 December 2022, no property, plant and equipment was pledged.

## **CONTINGENT LIABILITIES**

As at 31 December 2022, we did not have any unrecorded significant contingent liabilities against us.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2022, we employed 1,181 full-time staff in total, approximately 78.3% of whom are research and development personnel. Substantially all of our employees are based in China, primarily at our headquarters in Beijing, with the remainder in Chengdu, Changchun, Shanghai, Guangzhou, Hainan and South Korea. For the year ended 31 December 2022, cost of employees' remuneration and benefit was approximately RMB730.9 million as compared with RMB644.8 million for the year ended 31 December 2021.

We are committed to establishing a competitive and fair remuneration and benefits environment for our employees. To effectively motivate our business development team through remuneration incentives and ensure that our employees receive competitive remuneration packages, we continually refine our remuneration and incentive policies through market research and comparisons with our competitors. We conduct monthly performance evaluations to provide employee performance feedback, and report conduct quarterly selections to affirm and encourage outstanding employees. Remuneration for our employees typically consists of a base salary and performance-based and year-end bonuses. To incentivize our Directors, senior management and employees of the Group for their contribution to the Group, the Company adopted the Pre-IPO RSU Scheme on 1 April 2020 and the RSU Scheme on 22 December 2022, and adopted and amended the Share Option Scheme on 5 February 2021 and 22 December 2022, respectively. For details, please refer to "RSU Schemes" and "Share Option Scheme" under the section "Directors' Report" in this annual report.

As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing provident fund, pension insurance, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance.

We provide regular and specialized training tailored to the needs of our employees in different departments. We regularly organize training sessions conducted by senior employees or external consultants, covering various aspects of our business operations, including overall management, legislations and statutory regulations, project execution and technical know-how. We constantly review the content of training and follow up with employees to evaluate the effect of such training. Through the training, we help our employees to stay up to date with industry development, skills and technologies. We also organize workshops, from time to time, to discuss specific topics.



# Management Discussion and Analysis

## FOREIGN CURRENCY EXCHANGE RISKS

For the year ended 31 December 2022, most of transactions of the Group and our cash and cash equivalents were denominated in RMB, US\$ and HK\$. The management team closely monitors foreign currency exchange risks to ensure that appropriate measures are implemented in a timely and effective manner. For the year ended 31 December 2022, the Group has not incurred any significant foreign currency exchange losses in its operations. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

## USE OF NET PROCEEDS FROM GLOBAL OFFERING

On 15 July 2020, the Company successfully completed its initial public offering of 187,400,000 Shares at HK\$11.60 per Share, and its Shares were listed on the Main Board of the Stock Exchange. On 11 August 2020, the over-allotment option described in the Prospectus was fully exercised by the Sole Global Coordinator on behalf of the International Underwriters as defined in the Prospectus in respect of an aggregate of 28,110,000 offer shares (the "Over-allotment Shares"). The Over-allotment Shares have been allotted and issued by the Company at HK\$11.60 per Share. The net proceeds raised from the Global Offering (after taking account of the exercise of over-allotment option), after deduction of the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering, were approximately HK\$2,358.5 million.

The below table sets forth the proposed and actual applications of the net proceeds from the Listing Date to 31 December 2022:

Use of net proceeds	Percentage	The amount		As at 31 December 2022		Expected timeline for utilizing the remaining net proceeds <sup>(1)</sup>
		Net proceeds from the Global Offering (HK\$ million)	Net utilized during the year ended 31 December 2022 (HK\$ million)	Utilized amount (HK\$ million)	Unutilized amount (HK\$ million)	
Enhancing the development capabilities and technology and expanding our game portfolio	40%	943.5	136.0	943.5	-	-
Expanding game publishing and operation business, particularly in markets outside of mainland China	20%	471.7	173.8	471.7	-	-
Funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom	20%	471.7	45.1	181.5	290.2	2023.01-2023.07
Expanding the IP reserve and enriching our content offerings	10%	235.8	38.2	195.8	40.0	2023.01-2023.07
Working capital and general corporate uses	10%	235.8	127.6	235.8	-	-
<b>Total</b>	<b>100%</b>	<b>2,358.5</b>	<b>520.7</b>	<b>2,028.3</b>	<b>330.2</b>	

Note:

(1) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to changes based on the current and future development of the market conditions.

# Management Discussion and Analysis



Since the Listing Date and up to 31 December 2022, approximately HK\$2,028.3 million out of net proceeds from the Global Offering had been used.

The original expected timeline of utilizing the remaining net proceeds in respect of (i) funding strategic acquisition of and investment in upstream and downstream businesses along the industry value chain and investment in investment funds focusing on pan-entertainment or technology, media, and telecom; and (ii) expanding the IP reserve and enriching the Group's content offerings was July 2022. The delay in the use of such net proceeds was mainly attributable to:

- (i) longer time required for and the more cautious approach taken by the Group in locating and assessing suitable acquisition and investment targets, in view of the more stringent policies and supervision imposed by the regulatory authorities in the pan-entertainment, technology, media, telecom businesses; and
- (ii) the postponement of securing IPs for future mobile game adaptations and development, as the development of game pipeline was generally prolonged due to the strategic decision of the Group to invest additional research and development time and resources for fine-tuning the games introduced in 2022.

Apart from the above-mentioned adjustments, as at the date of this annual report, there was no change in the intended use of net proceeds and the expected timeline as previously disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

To the extent that net proceeds are not immediately used for the intended use, the Company currently intends to place such proceeds in short-term interest bearing instruments, such as liquid fixed income securities, short-term bank deposits, short-term and low risk wealth management products or money market instruments with licensed commercial banks or other authorized financial institutions so long as it is deemed to be in the best interests of the Company.





# Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

## GLOBAL OFFERING AND PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 2 January 2020 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's Shares were listed on the Stock Exchange on 15 July 2020.

The Company is an investment holding company. The Group is principally engaged in the development and operating of mobile games in the PRC and other countries and regions.

The activities and particulars of the Group and an analysis of the Group's revenue and operating profit for the year by principal activities are set out under the section headed "Management Discussion and Analysis" in this annual report and Note 5 to the consolidated financial statements.

A review of the Group's business, major risks, use of net proceeds from the Global Offering, uncertainties faced by the Group, and the future development of the Group's business could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this directors' report.

## RESULTS

The consolidation results of the Group for the year ended 31 December 2022 are set out on pages 85 to 168 of this annual report.

## FINAL DIVIDENDS

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

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting to be held on Friday, 16 June 2023 (the "AGM"), the register of members of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the AGM, all share certificates with completed transfer forms must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 12 June 2023 for registration of share transfer.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2022 are set out in Note 15 to the consolidated financial statements on page 140 to 141 of this annual report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. For further details of the Group's environmental policies and performance, please refer to the environmental, social and governance report of the Company for the year ended 31 December 2022.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2022 are set out in Note 24 to the consolidated financial statements on page 151 to 152 of this annual report.

## RESERVES

Details of the movement in the reserves of the Group and of the Company during the year ended 31 December 2022 are set out in Note 25 and 33(b) respectively to the consolidated financial statements on page 153 and 167 of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's distributable reserves were RMB6,243.3 million.

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

During the year ended 31 December 2022, the Board considered the repurchases of Shares could enhance the net value of the Group and improve the return on equity and will benefit the Company and the Shareholders as a whole, thus the Company repurchased a total of 12,616,370 Shares on the Stock Exchange at a total consideration of HK\$61,261,899.90, of which 5,732,000 repurchased Shares were yet to be cancelled as at 31 December 2022 and had been cancelled as at the date of this annual report.



## Directors' Report

Details of the aforementioned repurchases are set out as follows:

<b>Month of repurchase</b>	<b>Total number of Shares repurchased</b>	<b>Highest price paid per Share (HK\$)</b>	<b>Lowest price paid per Share (HK\$)</b>	<b>Total purchase price paid (HK\$)</b>
January 2022	776,000	9.30	8.87	7,062,330.00
March 2022	87,000	7.58	7.45	656,020.00
April 2022	945,000	8.50	7.32	7,531,620.00
May 2022	1,518,000	7.25	6.19	10,270,760.00
June 2022	1,171,000	6.60	5.58	7,077,910.00
July 2022	2,387,370	5.36	4.59	11,628,986.40
August 2022	127,000	3.97	3.91	500,810.00
September 2022	3,966,000	3.47	2.78	12,365,243.50
October 2022	1,549,000	2.94	2.19	3,968,420.00
November 2022	90,000	2.22	2.22	199,800.00
<b>Total</b>	<b>12,616,370</b>			<b>61,261,899.90</b>

Save as disclosed above, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

### PRE-EMPTIVE RIGHTS

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

### DIRECTORS

The Directors for the Reporting Period and up to the date of this annual report were:

#### Executive Directors

Mr. Li Qing (*Chairman*)  
Mr. Bai Wei

#### Non-executive Directors

Ms. Liu Ming  
Mr. Lu Xiaoyin

#### Independent Non-executive Directors

Mr. Bai Kun  
Mr. Zhu Lin  
Mr. Ding Zhiping

## **BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT**

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 61 to 65 under the section headed “Biographical details of Directors and Senior Management” of this annual report.

## **DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

Each of the executive Directors has entered into a service agreement with our Company with an initial term of three years with effect from the Listing Date, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other (subject always to re-election as and when required under the Articles of Association). No Director's remuneration is payable to the executive Directors under the agreement.

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. Ms. Liu Ming, Mr. Zhu Lin and Mr. Ding Zhiping were appointed with an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the relevant letters of appointment. Mr. Lu Xiaoyin and Mr. Bai Kun were appointed with an initial term of three years commencing from 5 November 2020 and 24 September 2021, respectively, subject to termination in certain circumstances as stipulated in the relevant letters of appointment. Under these appointment letters, each of the independent non-executive Directors will receive a Director's annual remuneration of RMB100,000.

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).

## **DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE**

No Director or any entity connected with them had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

## **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

The Directors and senior management receive compensation from the Group in the form of fees, salaries, bonuses, contributions to pension schemes, allowances and benefits in kind. The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in Note 9 to the consolidated financial statements on pages 132 to 134 of this annual report.



## Directors' Report

The senior management's total remuneration paid/payable for the year ended 31 December 2022 (including all executive Directors) by bands is as follows:

<b>Band</b>	<b>Number of senior management for the year ended 31 December 2022</b>
Nil to RMB1,000,000	–
RMB1,000,001 to RMB5,000,000	5
Over RMB5,000,000	1

For the year ended 31 December 2022, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. All executive Directors and non-executive Directors didn't receive any remuneration as Director in 2022. Save as disclosed above, none of the Directors has waived any emoluments for the year ended 31 December 2022.

The employees of the Group's subsidiaries which operate in mainland China and overseas are required to participate in central pension schemes operated by the local government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. Details of the Group's pension scheme are set out in Note 9 to the consolidated financial statements on pages 132 to 134 of this annual report.

Except as disclosed above, no other payments have been made or are payable, during the Reporting Period, by the Group to or on behalf of any of the Directors.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the date of this annual report, Ms. Liu Ming, our non-executive Director, held directorship in certain companies principally engaged in game development and distribution. On the basis that Ms. Liu Ming is not involved in the daily management and operation of the Company and such companies, the directorship held by Ms. Liu Ming would not give rise to any material competition issue under Rule 8.10 of the Listing Rules.

As at the date of this annual report, Mr. Lu Xiaoyin, our non-executive Director, held directorship in certain companies principally engaged in game development and distribution, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "**Competing Business**"). Notwithstanding the aforesaid interests, as the Board is independent of the board of the companies engaged in the Competing Business and has three independent non-executive Directors and Mr. Lu Xiaoyin is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and the Shareholders as a whole, the Group is capable of carrying on its businesses independently of, and at arm's length from, the Competing Business.

Save as disclosed above, during the Reporting Period, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries, under Rule 8.10 of the Listing Rules.



## CONTRACT OF SIGNIFICANCE

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

## CONNECTED TRANSACTION

The Group has entered into several connected transaction agreements with certain connected persons of the Group as described in the paragraphs below.

### Continuing Connected Transactions

#### (1) Non-Exempt Continuing Connected Transactions

Save for the Contractual Arrangements disclosed below, the transactions under the following continuing connected transaction framework agreements constitute non-exempt continuing connected transactions of the Company during the year ended 31 December 2022:

	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
1	Game Cooperation with Perfect World Group/ Perfect World Game Cooperation Framework Agreement	The Group and Perfect World Group <sup>(1)</sup>	10 June 2020 and renewed on 4 November 2022/ The term commenced on the Listing Date and expired on 31 December 2022. The term of the renewed agreement commenced on 1 January 2023 and shall expire on 31 December 2025.	The Perfect World Group shall license certain IP rights on a non-exclusive basis to us to adapt and develop such IP to mobile or PC version of games, grant publishing rights of such games to us on an exclusive basis, and cooperate in the operation of such games.	The licensing fees and/or revenue sharing to be incurred by the Group to the Perfect World Group shall be determined upon arm's length negotiation between the parties with reference to (i) the quality and popularity of the original IP; (ii) the prevailing fee structure and pricing terms of comparable IPs in the market; and (iii) the potential revenue and profitability from the game. Based on the historical licensing fees paid for original IPs from independent licensors and the fee quotes provided by other independent licensors of similar IPs, we will be able to ensure that the fees to be incurred to the Perfect World Group by the Group represents the prevailing market price and on normal commercial terms that are no less favourable to the Company.



# Directors' Report

	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
2	Perfect World Graphic Design Services/ Perfect World Game Cooperation Framework Agreement	The Group and Perfect World Group <sup>(1)</sup>	10 June 2020 and renewed on 4 November 2022/ The term commenced on the Listing Date and expired on 31 December 2022. The term of the renewed agreement commenced on 1 January 2023 and shall expire on 31 December 2025.	The Perfect World Group shall provide graphic design services to the Group in return for service fees.	The service fees to be incurred by the Group to the Perfect World Group shall be determined after arm's length negotiation between the parties with reference to (i) the complexity of the design requirements; and (ii) the prevailing fee structure and pricing terms for similar services in the market. Based on fee quotes provided by other independent service providers, we will be able to ensure that the fees to be incurred to the Perfect World Group by the Group represents the prevailing market price and on normal commercial terms that are no less favourable to the Company.



	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
3	Cloud Services of Tencent/ Cloud Services Agreement	The Group and Tencent Cloud <sup>(2)</sup>	30 March 2016 (as supplemented by three supplemental agreements on 13 June 2016, 1 January 2020 and 4 November 2022, respectively)/ The term was renewed from 1 January 2020 and expired on 31 December 2022. The term of the supplemental agreement dated 4 November 2022 commenced from 1 January 2023 and shall expire on 31 December 2025.	The provision of services includes (i) cloud services ranging from cloud computing, data storage and CDN services, cloud security services, domain name services, mobility and communications services, video services and artificial intelligence products and/or services; and (ii) 24-hour/7 days per week after-sales services as well as assistance in addressing issues encountered during the use of Tencent Cloud services by the Group. The precise scope shall be agreed in separate underlying orders to be placed by us depending on our business needs through the online platform of Tencent Cloud.	Before entering into any separate underlying orders under the Cloud Services Agreement, we will assess our needs, evaluate the quality of cloud services of different service providers and compare the rates of services fees proposed by Tencent Cloud with the rates offered by other independent competent service providers. Based on the fee quotes provided by other independent service providers, we will be able to ensure that the services fees to be incurred by the Group to Tencent Cloud represents the prevailing market price and on normal commercial terms that are no less favorable to the Company. Based on this agreement, we have enjoyed and will continue to enjoy a volume discount for the cloud services that are engaged in a calendar month on a progressive basis. We will only place an underlying order with Tencent Cloud when such order is in the best interests of the Company and the Shareholders as a whole.





# Directors' Report

	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
4	Publishing of Games on Tencent Platforms/ Tencent Game Cooperation Framework Agreement	The Group and Tencent Group <sup>(2)</sup>	22 June 2020 and renewed on 4 November 2022/ The term commenced on the Listing Date and expired on 31 December 2022. The term of the renewed agreement commenced on 1 January 2023 and shall expire on 31 December 2025.	We shall engage Tencent Group as a distribution channel, such that our games are published on platforms operated by Tencent Group, such as Tencent MyApp (騰訊應用寶).	The commissions to be incurred by the Group to Tencent Group in relation to the publishing of games on Tencent platforms shall be determined after arm's length negotiation between the parties with reference to (i) the prevailing market rate; and (ii) the standard commission rates of the Tencent Group for game publishers, including the Company. Based on the fee quotes provided by other Independent Third Party game publishers, we will be able to ensure that the commissions to be incurred by the Group to Tencent Group represents the prevailing market rate and on normal commercial terms that are no less favourable to the Company.



	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
5	Exclusive Publishing and Operation of Games/Tencent Game Cooperation Framework Agreement	The Group and Tencent Group <sup>(2)</sup>	22 June 2020 and renewed on 4 November 2022/ The term commenced on the Listing Date and expired on 31 December 2022. The term of the renewed agreement commenced on 1 January 2023 and shall expire on 31 December 2025.	We shall engage the Tencent Group to publish, operate and promote certain games that we self-developed in designated regions.	<p>The pricing of the transactions will be determined with reference to (i) the test results of our games based on Tencent's internal evaluation system with regards to the nature, quality and the expected popularity in the market; (ii) potential user traffic and gross billings arising from the platforms operated by the Tencent Group; and (iii) the fee arrangements at the prevailing terms in the market. Based on the fee quotes provided by other independent service providers, we will be able to ensure that the fees and revenue to be incurred by the Tencent Group to the Group represent the prevailing market price and on normal commercial terms that are no less favorable to the Company.</p> <p>The fee arrangements of such transactions may consist of any of the following: (i) fixed licensing fees that may be paid by separate instalments that are hedged against the progression of the commercial operation of the game; (ii) revenue sharing at a fixed proportion; and (iii) initial prepaid fees that shall be deductible for the subsequent revenue sharing. The pricing for the historical transactions was negotiated separately at arm's length, having taken into account the aforementioned considerations holistically.</p>



# Directors' Report

	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
6	Licensing of Game Adaptation Rights/ Licensing Agreement	The Group and Tencent Penguin <sup>(2)</sup>	18 June 2022/ The term commenced on 18 June 2022 and shall expire on 29 December 2025.	Tencent Penguin has agreed to grant the Group an exclusive and non-transferable right to (i) adapt and develop the Cooperative Game based on the Dragon Raja Original Work; (ii) publish and operate the Cooperative Game; and (iii) use the related content of the Dragon Raja Animation in the Cooperative Game	<p>The fee under the Licensing Agreement payable by the Group to Tencent Penguin shall comprise (i) a fixed licensing fee of RMB10,000,000; and (ii) a fixed rate of relevant revenue deductible from a prepayment of guaranteed share of relevant revenue in the amount of RMB5,000,000.</p> <p>The fee under the Licensing Agreement, including the fixed rate of relevant revenue, was determined after arm's length negotiation between the parties with reference to (i) the quality and popularity of the Dragon Raja Original Work; and (ii) the prevailing fee arrangement and pricing terms in respect of licensing of comparable game adaptation rights in the market.</p>



	<b>Transactions/ Agreement</b>	<b>Parties</b>	<b>Date/Term of Agreement</b>	<b>Contents of Transaction</b>	<b>Pricing Policy</b>
<b>Non-Exempt Continuing Connected Transactions</b>					
7	Exclusive Agency and Operation of Games/ Exclusive Agency and Operation Agreement	The Group, Tencent Shanghai and Shenzhen Tencent Tianyou <sup>(2)</sup>	26 August 2022/ The term commenced on 26 August 2022 and shall expire on 25 August 2025.	Tencent Shanghai and Shenzhen Tencent Tianyou have agreed to grant to the Group an exclusive and nontransferable right to advertise, promote and operate the Licensed Game in South Korea.	<p>The fee under the Exclusive Agency and Operation Agreement payable by the Group to Tencent Shanghai and Shenzhen Tencent Tianyou shall comprise (i) a fixed licensing fee of US\$200,000 (tax included); and (ii) a fixed rate of share of the total revenue after deducting the bad debt and the reasonable deductible amount to be paid and settled from the date of official open test of the Licensed Game after reconciliation on a monthly basis.</p> <p>The fee under the Exclusive Agency and Operation Agreement was determined after arm's length negotiation between the parties after taking into account the revenue sharing arrangement and prevailing licensing fees payable by the Group to other independent third parties in respect of exclusive agency and operation agreement for similar and comparable games in the market.</p>

*Notes:*

- (1) Perfect World Group ultimately controls Perfect World Interactive, one of our substantial Shareholders.
- (2) Tencent is one of our substantial Shareholders, and Tencent Cloud, Tencent Penguin, Tencent Shanghai and Shenzhen Tencent Tianyou are wholly-owned subsidiaries of Tencent.



## Directors' Report

### **Transaction caps and actual transaction amounts for the year ended 31 December 2022**

Actual transaction amounts and transaction caps of the above-mentioned non-exempt continuing connected transactions for the Reporting Period are as follows:

	<b>For the year ended 31 December 2022</b>	
	<b>2022 Annual cap (RMB in million)</b>	<b>Actual amount (RMB in million)</b>
<b>Transactions with Perfect World Group</b>		
Game cooperation with Perfect World Group	<b>7.20</b>	6.91
Perfect World graphic design services	<b>14.20</b>	–
<b>Transactions with Tencent Group</b>		
Cloud services of Tencent	<b>4.80</b>	3.76
Publishing of games on Tencent platforms	<b>0.40</b>	0.13
Exclusive publishing and operation of games	<b>1,617.90</b>	170.42
Licensing of game adaptation rights	<b>12.50</b>	11.79
Exclusive agency and operation of games	<b>9.40</b>	1.56

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2022 has followed the pricing policies of such continuing connected transactions.

For the year ended 31 December 2022, the independent non-executive Directors have reviewed the aforesaid non-exempt continuing connected transactions and confirmed that the transactions have been entered into:

- (i) in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interest of the Company and Shareholders as a whole;
- (ii) on normal commercial terms or better; and
- (iii) in the ordinary and usual course of business of the Company.

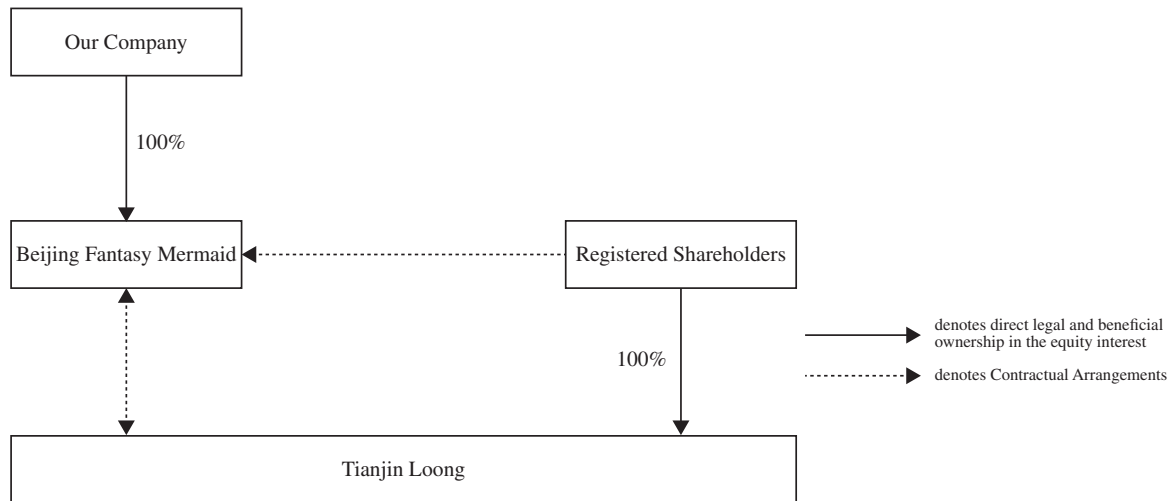
The Company's auditor has been engaged to report on the continuing connected transactions and has confirmed that the aforesaid non-exempt continuing connected transactions have been approved by the Board and entered into in accordance with the relevant agreements governing them. They are in accordance with the Company's pricing policies and have not exceeded the annual cap.

## **(2) Contractual Arrangements**

On 10 March 2020, a series of Contractual Arrangements have been entered into by, among others, Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our 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) Powers of Attorney. The total revenue of our Consolidated Affiliated Entities during the year ended 31 December 2022 was approximately RMB322.3 million, and the total assets of our Consolidated Affiliated Entities as at 31 December 2022 was approximately RMB1,317.0 million.



The following simplified diagram illustrates the relationships among the entities under the Contractual Arrangements:



*Notes:*

- (1) Tianjin Loong and Beijing Fantasy Mermaid entered into the Exclusive Business Cooperation Agreement on 10 March 2020, pursuant to which Tianjin Loong agreed to engage Beijing Fantasy Mermaid as its exclusive service provider of comprehensive business support, technical services and consultation services.
- (2) Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Exclusive Option Agreement on 10 March 2020, pursuant to which the Registered Shareholders severally granted irrevocably to Beijing Fantasy Mermaid the rights to require the Registered Shareholders to transfer any or all their equity interests and to require Tianjin Loong to transfer any or all of its assets to Beijing Fantasy Mermaid and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations.
- (3) Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Equity Pledge Agreement on 10 March 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Tianjin Loong to Beijing Fantasy Mermaid as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.
- (4) The Registered Shareholders have executed Powers of Attorney on 10 March 2020, pursuant to which, each Registered Shareholder irrevocably appoints Beijing Fantasy Mermaid or its designated person, as its attorney-in-fact to exercise such shareholder's rights in Tianjin Loong.
- (5) As at the date of this annual report, the Registered Shareholders are the following persons who together hold the 100% equity interest of Tianjin Loong:

Shareholders	Approximate percentage of shareholding
Beijing Loong	56.34%
Ningbo Longren	8.27%
Linzhi Lichuang	12.35%
Perfect World	18.05%
Ningbo Qiance	5.00%



# Directors' Report

## **Summary of the Contractual Arrangements**

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

(i) *Exclusive Business Cooperation Agreement*

Tianjin Loong and Beijing Fantasy Mermaid entered into the Exclusive Business Cooperation Agreement on 10 March 2020, pursuant to which Tianjin Loong agreed to engage Beijing Fantasy Mermaid as its exclusive service provider of comprehensive business support, technical services and consultation services, including (1) management consultation; (2) technical consultation; (3) technical service; (4) business support; (5) marketing and promotion; (6) development, maintenance and upgrade of software; (7) maintenance of the system; (8) human resource support; (9) rental of equipment; and (10) other relevant services requested by Tianjin Loong from time to time to the extent permitted under PRC laws and regulations.

Pursuant to the Exclusive Business Cooperation Agreement, the service fee shall be equivalent to the total consolidated net profit of Tianjin Loong, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, Beijing Fantasy Mermaid shall have the right to adjust the level of the service fee based on the actual service scope and with reference to the operating conditions and expansion needs of the Consolidated Affiliated Entities. Tianjin Loong has agreed to pay the service fee to the bank account designated by Beijing Fantasy Mermaid within five business days after Beijing Fantasy Mermaid issues the payment notice.

The Exclusive Business Cooperation Agreement also provides that Beijing Fantasy Mermaid has the exclusive proprietary rights in any and all intellectual property rights developed or created by the Consolidated Affiliated Entities during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreement may be terminated by Beijing Fantasy Mermaid (i) by giving Tianjin Loong a 30 days' prior written notice of termination; (ii) upon the transfer of the entire equity interests in and the transfer of all assets of Tianjin Loong to Beijing Fantasy Mermaid or its designated person pursuant to the Exclusive Option Agreement; (iii) when Tianjin Loong ceases to operate any business, becomes insolvency, bankruptcy or subject to liquidation or dissolution procedures; (iv) when relevant government authorities refuse to renew the expired operating period of Tianjin Loong or Beijing Fantasy Mermaid; (v) when it is legally permissible for Beijing Fantasy Mermaid to hold equity interests directly or indirectly in Tianjin Loong and Beijing Fantasy Mermaid or its designated person is registered to be the shareholder of Tianjin Loong; or (vi) Tianjin Loong breaches the Exclusive Business Cooperation Agreement. Tianjin Loong is not contractually entitled to unilaterally terminate the Exclusive Business Cooperation Agreement with Beijing Fantasy Mermaid.

(ii) *Exclusive Option Agreement*

Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Exclusive Option Agreement on 10 March 2020, pursuant to which the Registered Shareholders severally granted irrevocably to Beijing Fantasy Mermaid the rights to require the Registered Shareholders to transfer any or all their equity interests and to require Tianjin Loong to transfer any or all of its assets to Beijing Fantasy Mermaid and/or a third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. If not explicitly specified in PRC laws and regulations, the transfer price shall be free or the nominal price. The Registered Shareholders have also undertaken that, subject to the relevant PRC laws and regulations, they will return to Beijing Fantasy Mermaid any consideration they receive in the event that Beijing Fantasy Mermaid exercises the options under the Exclusive Option Agreement to acquire the equity interests and/or assets in Tianjin Loong.

The Exclusive Option Agreement has an indefinite term commencing from 10 March 2020, being the date of the Exclusive Option Agreement, until it is terminated (i) by Beijing Fantasy Mermaid through giving Tianjin Loong and the Registered Shareholders a prior written notice of termination; or (ii) upon the transfer of the entire equity interests held by the Registered Shareholders and/or the transfer of all the assets of Tianjin Loong to Beijing Fantasy Mermaid or its designated person and the completion of registration with the relevant local branch of the State Administration for Industry and Commerce of the PRC (the “SAIC”). Neither Tianjin Loong nor the Registered Shareholders is contractually entitled to terminate the Exclusive Option Agreement unless otherwise required by PRC laws and regulations.

(iii) *Equity Pledge Agreement*

Beijing Fantasy Mermaid, Tianjin Loong and the Registered Shareholders entered into the Equity Pledge Agreement on 10 March 2020, pursuant to which each of the Registered Shareholders agreed to pledge all of their respective equity interests in Tianjin Loong to Beijing Fantasy Mermaid as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements.

Under the Equity Pledge Agreement, Tianjin Loong and the Registered Shareholders represent and warrant to Beijing Fantasy Mermaid that appropriate arrangements have been made to protect Beijing Fantasy Mermaid's interests in the event of bankruptcy of the Registered Shareholders to avoid any practical difficulties in enforcing the Equity Pledge Agreement and shall procure or use its reasonable efforts to procure any successors of the Registered Shareholders to comply with the same undertakings as if they were parties to the Equity Pledge Agreement. If Tianjin Loong declares any dividend during the term of the pledge, Beijing Fantasy Mermaid is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any. If any of the Registered Shareholders or Tianjin Loong breaches or fails to fulfill the obligations under any of the aforementioned agreements, Beijing Fantasy Mermaid, as the pledgee, will be entitled to escrow of the pledged equity interests, entirely or partially. In addition, pursuant to the Equity Pledge Agreement, each of the Registered Shareholders has undertaken to Beijing Fantasy Mermaid, among other things, not to transfer its equity interests in Tianjin Loong and not to create or allow any pledge thereon that may affect the rights and interest of Beijing Fantasy Mermaid without its prior written consent.





## Directors' Report

The equity pledge under the Equity Pledge Agreement takes effect upon the completion of registration with the relevant local branch of the SAIC and shall remain valid until (i) all the obligations under the Contractual Arrangements have been fulfilled; (ii) each of the Registered Shareholders has transferred all of its equity interests in Tianjin Loong in accordance with the Exclusive Option Agreement and the pledgee can legally conduct the mobile game operation business; (iii) all of it is terminated as required by applicable PRC laws and regulations; (iv) Tianjin Loong has transferred all of its assets in accordance with the Exclusive Option Agreement and the pledgee can legally conduct the mobile game operation business; or (v) the Equity Pledge Agreement has been unilaterally terminated by Beijing Fantasy Mermaid.

*(iv) Powers of Attorney*

The Registered Shareholders have executed Powers of Attorney on 10 March 2020, pursuant to which, each Registered Shareholder irrevocably appoints Beijing Fantasy Mermaid or its designated person, as its attorney-in-fact to exercise such shareholder's rights in Tianjin Loong, including without limitation to, the rights to (i) convene and participate in shareholders' meeting pursuant to the articles of Tianjin Loong in the capacity of a proxy of the Registered Shareholder; (ii) exercise the voting rights pursuant to the relevant PRC laws and regulations and the articles of Tianjin Loong, on behalf of the Registered Shareholder, and adopt resolutions, on matters to be discussed and resolved at shareholders' meetings and the appointment and election of directors of Tianjin Loong; (iii) sign or submit any required document to any company registry or other authorities in the capacity of a proxy of each Registered Shareholder; and (iv) to nominate, elect, designate or appoint and remove the legal representative, directors, supervisors and other senior officers of Tianjin Loong pursuant to the articles of association of Tianjin Loong; to raise lawsuits or other legal proceedings against the directors and senior officers of Tianjin Loong when their behaviors harm the interest of its shareholders; and to instruct the directors and senior officers to act in accordance with our attention.

The Powers of Attorney has an indefinite term commencing from 10 March 2020 and will be terminated in the event that (i) the Powers of Attorney is unilaterally terminated by Beijing Fantasy Mermaid; or (ii) it is legally permissible for Beijing Fantasy Mermaid, our Company or any of our subsidiaries to hold equity interests directly or indirectly in Tianjin Loong and Beijing Fantasy Mermaid or its designated person is registered to be the sole shareholder of Tianjin Loong.

### ***Reasons for adopting the Contractual Agreements***

We are considered to be engaged in the provision of value-added telecommunications services as a result of the operations of our business. We conduct our mobile game operation business through our Consolidated Affiliated Entities, namely Tianjin Loong and its subsidiary, Huai'an Loong. Pursuant to applicable PRC laws and regulations, foreign investors are restricted to conduct value added telecommunications services. The business of Tianjin Loong and Huai'an Loong of mobile game operation falls within the scope of "value-added telecommunication service" under the Telecommunications Regulations, where foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting such business.

As a result of the foregoing, on 10 March 2020, a series of Contractual Arrangements have been entered into by, among others, Tianjin Loong, Beijing Fantasy Mermaid and the Registered Shareholders through which we obtain control over the operations of, and enjoy all economic benefits of our Consolidated Affiliated Entities. Further details of the limitations on foreign ownership in PRC companies conducting internet cultural business and value-added telecommunications services under applicable PRC laws and regulations are set out under the section headed "Regulatory Overview – Regulations on Foreign Investments" in the Prospectus.

## ***Risks relating to the Contractual Arrangements***

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

- (i) If the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of our interests in our Consolidated Affiliated Entities.
- (ii) Our contractual arrangements may not be as effective in providing operational control as direct ownership. Tianjin Loong or their shareholders may fail to perform their obligations under our contractual arrangements.
- (iii) We may lose the ability to use and enjoy assets held by our Consolidated Affiliated Entities that are material to our business operations if our Consolidated Affiliated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- (iv) The shareholders and directors of Tianjin Loong may have conflicts of interest with us, which may materially and adversely affect our business.
- (v) If we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.
- (vi) Substantial uncertainties exist with respect to the interpretation and implementation of the 2019 Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.
- (vii) Our contractual arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Further details of these risks are set out under the section headed “Risk Factors – Risks Related to Our Contractual Arrangements” in 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 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 on an occurrence basis;
- (ii) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) the Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports;



## Directors' Report

- (iv) the Company will engage external legal advisors or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Beijing Fantasy Mermaid and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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

- (i) the transactions carried out during the year ended 31 December 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 the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group;
- (iii) other than the Contractual Arrangements, no new contracts had been entered into, renewed and/or reproduced between the Group and the Consolidated Affiliated Entities during the year ended 31 December 2022; and
- (iv) the Contractual Arrangements had been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable so far as the Group is concerned, and in the interest of the Company and its Shareholders as a whole.

Our auditor has confirmed to the Board that the transactions under the Contractual Arrangements have been approved by the Board, the transactions carried out during the year ended 31 December 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 the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

### RELATED PARTY TRANSACTIONS

Details of the related party transactions carried out in the normal course of business are set out in Note 31 to the consolidated financial statements. Save as disclosed above, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules and disclosed in this annual report.

### MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended 31 December 2022.

### EQUITY-LINKED AGREEMENTS

Other than the Pre-IPO RSU Scheme, RSU Scheme and Share Option Scheme, no equity-linked agreements will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the Reporting Period or subsisted at the end of 2022.

## DONATIONS

During the year ended 31 December 2022, the Group made charitable and other donations of a total amount of approximately RMB 0.36 million.

## MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the year ended 31 December 2022.

## LOAN AND GUARANTEE

During the year ended 31 December 2022, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, chief executive of the Company, the controlling Shareholders or their respective connected persons.

## FINANCIAL, BUSINESS AND FAMILY RELATIONS AMONG DIRECTORS

Directors are not related to one another with respect to finance, business and family, or other material relations.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2022, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director or chief executive	Nature of interest	Number of ordinary Shares interested <sup>(1)</sup>	Approximate percentage of the Company's issued share capital <sup>(2)</sup>
Mr. Li Qing <sup>(3)</sup>	Interest in controlled corporation	282,266,802	35.03%
Mr. Bai Wei <sup>(4)</sup>	Interest in controlled corporation	15,447,304	1.92%

Notes:

- (1) All interest stated are long positions.
- (2) The calculation is based on the total number of 805,754,630 Shares in issue as at 31 December 2022.
- (3) 278,329,802 Shares were held through Cresc Chorus, a company owned as to 81.96% by LuckQ, which in turn is wholly-owned by Mr. Li Qing and 3,937,000 Shares were held through Pondweed Holdings Limited, a company wholly-owned by Mr. Li Qing. Accordingly, Mr. Li Qing was deemed to be interested in such Shares held by Cresc Chorus and Pondweed Holdings Limited for the purpose of part XV of the SFO.
- (4) These Shares were held by Wade Data Services Limited ("Wade Data") which was wholly-owned by Mr. Bai Wei. Accordingly, Mr. Bai Wei was deemed to be interested in such Shares held by Wade Data for the purpose of Part XV of the SFO.



# Directors' Report

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as our Directors are aware, as at 31 December 2022, the following persons have interests or short positions in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of Shares interested <sup>(1)</sup>	Approximate percentage of the Company's issued share capital <sup>(2)</sup>
Mr. Li Qing <sup>(3)</sup>	Interest in controlled corporation	282,266,802	35.03%
Cresc Chorus <sup>(3)</sup>	Beneficial owner	278,329,802	34.54%
LuckQ <sup>(3)</sup>	Interest in controlled corporation	278,329,802	34.54%
Perfect World Interactive <sup>(4)</sup>	Beneficial owner	132,593,999	16.46%
Perfect Game Speed Company Limited <sup>(4)</sup>	Interest in controlled corporation	132,593,999	16.46%
Perfect Freedom Company Limited <sup>(4)</sup>	Interest in controlled corporation	132,593,999	16.46%
Beijing Perfect World Software Technology Development Co., Ltd. <sup>(4)</sup>	Interest in controlled corporation	132,593,999	16.46%
Perfect World Games <sup>(4)</sup>	Interest in controlled corporation	132,593,999	16.46%
Perfect World <sup>(4)</sup>	Interest in controlled corporation	132,593,999	16.46%
Mr. Chi Yufeng (池宇峰) <sup>(4)</sup>	Interest in controlled corporation	132,593,999	16.46%
Image Frame <sup>(5)</sup>	Beneficial owner	105,077,999	13.04%
Tencent <sup>(5)</sup>	Interest in controlled corporation	137,698,399	17.09%
GIC Private Limited	Beneficial owner	47,735,221	5.92%

### Notes:

- (1) All interests stated are long positions.
- (2) The percentages represented the number of Shares over the total issued share capital of the Company as at 31 December 2022 of 805,754,630 Shares.
- (3) Based on the latest disclosure of interest form filed by each of Cresc Chorus, LuckQ and Mr. Li Qing, Cresc Chorus was owned as to 81.96% by LuckQ, which was in turn wholly owned by Mr. Li Qing. Accordingly, each of LuckQ and Mr. Li Qing was deemed to be interested in all the Shares held by Cresc Chorus by virtue of the SFO.
- (4) Based on the confirmation by Perfect World Holding Group as at 31 December 2022, Perfect World Interactive was wholly owned by Perfect Game Speed Company Limited, which was in turn wholly owned by Perfect Freedom Company Limited. Perfect Freedom Company Limited was wholly owned by Beijing Perfect World Software Technology Development Co., Ltd., which was in turn wholly owned by Perfect World Games. Perfect World Games was wholly owned by Perfect World, which was in turn owned as to 34.36% by Mr. Chi Yufeng. Accordingly, each of Perfect Game Speed Company Limited, Perfect Freedom Company Limited, Beijing Perfect World Software Technology Development Co., Ltd., Perfect World Games, Perfect World and Mr. Chi Yufeng was deemed to be interested in all the Shares held by Perfect World Interactive by virtue of the SFO.
- (5) Based on the latest disclosure of interest form filed by Tencent as at 31 December 2022, 105,077,999 Shares were held through Image Frame Investment (HK) Limited ("**Image Frame**"), a company wholly-owned by Tencent and 32,620,400 Shares were held through Image Flag Investment (HK) Limited ("**Image Flag**"), a company wholly-owned by Tencent. Accordingly, Tencent was deemed to be interested in all the Shares held by Image Frame and Image Flag by virtue of the SFO.

## RSU SCHEMES

The Company adopted the Pre-IPO RSU Scheme and the RSU Scheme on 1 April 2020 and on 22 December 2022, respectively. Details of the Pre-IPO RSU Scheme are set out in the Prospectus and details of the RSU Scheme are set out in the circular of the Company dated 22 November 2022.

### **Pre-IPO RSU Scheme**

#### ***Purpose of the Pre-IPO RSU Scheme***

The purpose of the Pre-IPO RSU Scheme is to incentivize the directors, senior management and employees for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

#### ***Participants of the Pre-IPO RSU Scheme***

Persons eligible to receive Pre-IPO RSUs under the Pre-IPO RSU Scheme include directors, senior management and existing employees or officers of the Company or any member of the Group.

#### ***Maximum Number of Shares Available for Issue under the Pre-IPO RSU Scheme***

The maximum number of Pre-IPO RSUs that may be granted under the Pre-IPO RSU Scheme in aggregate (excluding Pre-IPO RSUs that have lapsed or been cancelled in accordance with the rules of the Pre-IPO RSU Scheme) shall not exceed 29,400,000, subject to any adjustment pursuant to any capitalization issue or capital restructuring. The Company shall utilize the existing Shares held by Smooth Ebony for the vesting of the Pre-IPO RSUs and thus no new Shares shall be issued in respect of the Pre-IPO RSU Scheme.

#### ***Duration of the Pre-IPO RSU Scheme and Time of Exercise of Pre-IPO RSU***

The Pre-IPO RSU Scheme will be valid and effective for a period of ten (10) years, commencing from the adoption date of the Pre-IPO RSU Scheme, being 1 April, 2020 (unless it is terminated earlier in accordance with its terms) (the "**Pre-IPO RSU Scheme Period**") after which period no further Pre-IPO RSUs will be granted, but the provisions of the Pre-IPO RSU Scheme shall in all other respects remain in full force and effect and Pre-IPO RSUs that are granted during the Pre-IPO RSU Scheme Period may continue to be exercisable in accordance with their terms of issue. Subject as provided and subject to the terms and conditions upon which such Pre-IPO RSU was granted, a Pre-IPO RSU may (and may only) be exercised by the participant at any time or times during the Pre-IPO RSU Scheme Period. The remaining life of the Pre-IPO RSU Scheme is approximately 6 years and 11 months as at the date of this annual report.

The Board can determine the vesting criteria, conditions and the time schedule for the vesting of the Pre-IPO RSUs and the same shall be stated in the grant letter.

The Company confirms that the grant of the Pre-IPO RSUs under the Pre-IPO RSU Scheme after 22 December 2022, being the adoption date of the RSU Scheme, is to be conducted in compliance with the requirements under Chapter 17 of the Listing Rules. As such:



# Directors' Report

## **The Maximum Entitlement of Each Participant under the Pre-IPO RSU Scheme**

The total number of Shares issued and to be issued in respect of all options and awards granted under the Pre-IPO RSU Scheme and any other share schemes of the Group (excluding any options and awards lapsed in accordance with the terms of the Pre-IPO RSU Scheme or any other share schemes of the Group) to each participant in any 12-month period may not exceed 1% of the Shares in issue from time to time. Where any further grant of Pre-IPO RSUs to a participant under the Pre-IPO RSU Scheme would result in the Shares issued and to be issued in respect of all options and awards granted and to be granted to such person (including exercised, cancelled and outstanding Pre-IPO RSUs) under the Pre-IPO RSU Scheme and any other share schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company at general meeting with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. In any event, the total number of Shares issued and to be issued in respect of Pre-IPO RSUs under the Pre-IPO RSU Scheme (excluding any Pre-IPO RSUs lapsed in accordance with the terms of the Pre-IPO RSU Scheme) to each participant shall not exceed 29,400,000 Shares.

## **Vesting Period**

The vesting period of the Pre-IPO RSUs shall not be less than 12 months or such other period as the Listing Rules may prescribe or permit.

## **Acceptance of Offers and Purchase/Exercise Price**

Grantee of the Pre-IPO RSUs is not required to pay any grant or purchase price or make any other payment to the Company to accept the Pre-IPO RSUs granted under the Pre-IPO RSU Scheme.

Details of movements of the Pre-IPO RSUs granted under the Pre-IPO RSU Scheme during the year ended 31 December 2022 are set out below:

Participants	Date of grant	Vesting period <sup>(3)</sup>	Exercise price per Share (HK\$)	Exercise cancelled Pre-IPO RSUs (HK\$)	Number of outstanding Pre-IPO RSUs at 1 January 2022	Number of Pre-IPO RSUs granted during the year <sup>(4)</sup>	Number of Pre-IPO RSUs vested during the year	Number of Pre-IPO RSUs exercised during the year	Weighted average closing price immediately	Number of Pre-IPO RSUs cancelled during the year	Number of Pre-IPO RSUs lapsed during the year	Number of outstanding Pre-IPO RSUs at 31 December 2022
									before the dates of vesting during the year (HK\$)			
Employee	1 April 2020 - 30 August 2022 <sup>(1)(2)</sup>	3 years	-	/	10,276,445	1,607,000	4,918,561	2,052,971	4.96	-	1,076,104	5,888,780

### Notes:

- (1) The dates of grant are 1 April 2020, 24 June 2020, 1 February 2021, 29 March 2021, 25 August 2021, 25 March 2022 and 30 August 2022.
- (2) For details of fair value of the Pre-IPO RSUs at the date of grant and the accounting standard and policies adopted, please refer to Note 26(b) to the consolidated financial statements on page 155 to 156 of this annual report.
- (3) The Pre-IPO RSUs are exercisable in installments from the commencement of the relevant vesting period until ten years after the grant date. For the Pre-IPO RSUs granted prior to the Listing Date, 40% of the Pre-IPO RSUs can be exercised 1 year after the Listing Date, 30% of the Pre-IPO RSUs can be exercised 2 year after the Listing Date and the remaining 30% of the Pre-IPO RSUs will become exercisable 3 years after the Listing Date. Save as disclosed above and subject to the terms of the Pre-IPO RSU Scheme and conditions stated in the letter containing the offer, 40% of the Pre-IPO RSUs can be exercised 1 year after the grant date, 30% of the Pre-IPO RSUs will become exercisable 2 years after the grant date and the remaining 30% of the Pre-IPO RSUs will become exercisable 3 years after the grant date.

(4) The closing prices of the Shares immediately before the dates of grant were as follows:

- 25 March 2022, HK\$7.63.
- 30 August 2022, HK\$3.84.

The grantees of the Pre-IPO RSUs granted under the Pre-IPO RSU Scheme as referred to in the table above are not required to pay for the grant of any Pre-IPO RSU under the Pre-IPO RSU Scheme.

## **RSU Scheme**

### ***Purpose of the RSU Scheme***

The purpose of the RSU Scheme is to incentivize directors, senior management and employees for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

### ***Participants of the RSU Scheme***

Persons eligible to receive RSUs under the RSU Scheme include directors, senior management and existing employees or officers of the Company or any member of the Group.

### ***Time of Conversion of RSU***

The period within which an RSU may be converted by the Participant under the RSU Scheme must not be more than ten (10) years from the date of grant of the RSUs.

### ***Maximum Number of Shares Available for Issue under the RSU Scheme***

The aggregate number of Shares which may be allotted and issued in respect of all RSUs to be granted under the RSU Scheme shall not exceed 20,000,000 Shares (i.e. representing approximately 2.5% of the total number of Shares in issue as at the adoption date of the RSU Scheme). As at the date of this annual report, the total number of Shares available for issue under the RSU Scheme is 20,000,000, representing approximately 2.5% of the issued Shares of the Company as at such date.

### ***The Maximum Entitlement of Each Participant under the RSU Scheme***

The total number of Shares issued and to be issued in respect of all options and awards granted under the RSU Scheme and any other share schemes of the Group (excluding any options and awards lapsed in accordance with the terms of the RSU Scheme or any other share schemes of the Group) to each Participant in any 12-month period may not exceed 1% of the Shares in issue from time to time. Where any further grant of RSUs to a Participant under the RSU Scheme would result in the Shares issued and to be issued in respect of all options and awards granted and to be granted to such person (including converted, cancelled and outstanding RSUs) under the RSU Scheme and any other share schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company at general meeting with such Participant and his close associates (or his associates if the Participant is a connected person) abstaining from voting. In any event, the total number of Shares issued and to be issued in respect of RSUs under the RSU Scheme (excluding any RSUs lapsed in accordance with the terms of the RSU Scheme) to each Participant shall not exceed 20,000,000 Shares.





# Directors' Report

## ***Vesting Period***

The vesting period shall not be less than 12 months or such other period as the Listing Rules may prescribe or permit. Initially and subject to otherwise determined by the Board at its absolute discretion at the relevant time for each individual grant of RSUs, all RSUs shall be convertible in installments subject to the vesting period as follows:

- i. 40% of the RSUs can be converted one (1) year after the date of grant;
- ii. 30% of the RSUs can be converted two (2) years after the date of grant; and
- iii. the remaining 30% of the RSUs can be converted three (3) years after the date of grant.

## ***Acceptance of Offers and Purchase/Conversion Price***

A Selected Person may accept an offer of the grant of RSUs in such manner as set out in the Grant Letter. Initially and subject to otherwise determined by the Board at its absolute discretion at the relevant time for each individual grant of RSUs, a Selected Person is not required to pay any grant or purchase price or make any other payment to the Company to accept the RSUs granted pursuant to Grant Letter, nor is he/she required to pay any conversion price upon the conversion of the RSUs.

## ***Duration of the RSU Scheme***

The RSU Scheme shall be valid and effective for a period of ten (10) years, commencing on the adoption date of the RSU Scheme (i.e. 22 December 2022), after which period no further RSUs will be granted, but the provisions of the RSU Scheme shall in all other respects remain in full force and effect and RSUs that are granted during the term of the RSU Scheme may continue to be convertible in accordance with their terms of issue. The remaining life of the RSU Scheme is approximately 9 years and 8 months as at the date of this annual report.

Since the adoption date of the RSU Scheme and up to 31 December 2022, there has been no grant of RSU(s) under the RSU Scheme. On 6 April 2023, 9,020,000 RSUs have been granted to 55 employees of the Group under the RSU Scheme. As at the date of this annual report, none of the abovementioned granted RSUs has been vested, exercised, lapsed or cancelled.

## **SHARE OPTION SCHEME**

The Company adopted and amended the Share Option Scheme on 5 February 2021 and on 22 December 2022, respectively. Details of the Share Option Scheme are set out in the circulars of the Company dated 19 January 2021 and 22 November 2022.

### **Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Participants for their contribution to, and continuing efforts to promote the interests of, the Group, and to incentivize them to remain with the Group, as well as for such other purposes as the Board may approve from time to time.

### **Participants of the Share Option Scheme**

Eligible Participants include any full-time employee (excluding any director) of the Company and any subsidiary of the Company. For the purposes of the Share Option Scheme, the Offer may be made to any company wholly owned by one or more Eligible Participants.

## **Maximum Number of Shares Available for Issue under the Share Option Scheme**

The aggregate number of Shares which may be allotted and issued in respect of all Options to be granted under the Share Option Scheme shall not exceed 40,775,500 Shares (i.e. representing approximately 5.0% of the total number of Shares in issue as at the Amendment Date). As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 34,011,123, representing approximately 4.25% of the issued Shares of the Company as at such date.

## **The Maximum Entitlement of Each Participant under the Share Option Scheme**

The total number of Shares issued and to be issued in respect of all options and awards granted under the Share Option Scheme and any other share option scheme of the Group (excluding any options and awards lapsed in accordance with the terms of the Share Option Scheme or any other share schemes of the Group to each Grantee in any 12-month period shall not exceed 1% of the Shares in issue from time to time. Where any further grant of Options to a Grantee under the Share Option Scheme would result in the Shares issued and to be issued in respect of all options and awards granted and to be granted to such person (including exercised, cancelled and outstanding Options) under the Share Option Scheme and any other share schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company at general meeting with such Grantee and his close associates (or his associates if the Grantee is a connected person) abstaining from voting. In any event, the total number of Shares issued and to be issued in respect of Options under the Share Option Scheme (excluding any Options lapsed in accordance with the terms of the Share Option Scheme) to each Grantee shall not exceed 40,775,500 Shares.

## **Time of Exercise of Option**

Subject as provided and subject to the terms and conditions upon which such Option was granted, an Option may (and may only) be exercised by the Grantee at any time or times during the Option Period.

## **Vesting Period**

The vesting period shall not be less than 12 months or such other period as the Listing Rules may prescribe or permit. Initially and subject to otherwise determined by the Board at its absolute discretion at the relevant time for each individual grant of Option, all Options shall be exercisable in installments subject to the vesting period as follows:

- (i) 40% of the Options can be exercised one (1) year after the Offer Date;
- (ii) 30% of the Options can be exercised two (2) years after the Offer Date; and
- (iii) the remaining 30% of the Options can be exercised three (3) years after the Offer Date.

## **Acceptance of Offers**

An Offer shall have been accepted by an Eligible Participant in respect of all Shares under the Option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Participant together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the Offer (which shall not be later than 21 days from the Offer Date). Such remittance shall in no circumstances be refundable.



# Directors' Report

## Exercise Price

The Exercise Price in respect of any Option shall, subject to any adjustments made in such manner as the auditors or the independent financial adviser of the Company retained for such purpose shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company, be determined at the absolute discretion of the Board, provided that it shall not be less than the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date; and
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Offer Date.

## Duration of the Share Option Scheme

Subject to the fulfillment of the effective conditions and the termination provisions, the Share Option Scheme shall be valid and effective until the Termination Date, after which period no further Options may be issued but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to give effect to the exercise of any Options granted but not exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. The remaining life of the Share Option Scheme is approximately 7 years and 9 months as at the date of this annual report.

Details of the movement of Options granted under the Share Option Scheme during the year ended 31 December 2022 are as follows:

Participants	Date of grant	Vesting period	Exercise Price per Share (HK\$)	Exercise Price per Share of the cancelled Options (HK\$)	Number of outstanding Options at 1 January 2022	Number of Options granted during the year <sup>(4)</sup>	Number of Options vested during the year	Number of Options exercised during the year	Weighted average closing price immediately before the dates of exercising during the year (HK\$)	Number of Options cancelled during the year	Number of Options lapsed during the year	Number of outstanding Options at 31 December 2022
Employee	14-Apr-21	3 years <sup>(2)</sup>	14.756	14.756	7,102,876	-	-	-	-	6,764,377	338,499	-
	7-Jan-22	From 7-Jan-22 to 14-Apr-24 <sup>(3)</sup>	8.720	-	/	6,764,377	2,513,714	-	-	-	1,410,098	5,354,279
					<u>7,102,876</u>	<u>6,764,377</u>	<u>2,513,714</u>	<u>-</u>	<u>-</u>	<u>6,764,377</u>	<u>1,748,597</u>	<u>5,354,279</u>

*Note:*

- (1) For details of fair value of the Options at the date of grant and the accounting standard and policies adopted, please refer to Note 26(a) to the consolidated financial statements on page 153 to 155 of this annual report.
- (2) The Options are exercisable in installments from the commencement of the relevant vesting period until 14 April 2031. Subject to the terms of the Share Option Scheme and conditions stated in the letter containing the Offer, 40% of the Options can be exercised 1 year after the grant date, 30% of the Options will become exercisable 2 years after the grant date and the remaining 30% of the Options will become exercisable 3 years after the grant date.
- (3) The Options are exercisable in installments from the commencement of the relevant vesting period until 7 January 2032. Subject to the terms of the Share Option Scheme and conditions stated in the letter containing the Offer, 40% of Options can be exercised after 14 April 2022, 30% of the Options can be exercisable after 14 April 2023 and the remaining 30% of the Options will become exercisable after 14 April 2024.
- (4) The closing price of the Shares immediately before the date of grant, 7 January 2022, was HK\$8.650.

The number of Options, Pre-IPO RSUs and RSUs available for grant under the scheme mandate was 46,027,399 as at 1 January 2022, 60,154,224 as at 31 December 2022 and 51,696,781 as at the date of this annual report, respectively. The number of Shares that may be issued in respect of Options and RSUs granted all schemes of the Company during the year ended 31 December 2022 divided by the weighted average number of Shares in issue for the year ended 31 December 2022 is 0.66%.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

## MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2022, the Group's largest customers accounted for 29.2% of the Group's total revenue. The Group's five largest customers accounted for 40.7% of the Group's total revenue.

For the year ended 31 December 2022, the Group's largest suppliers accounted for 15.7% of the Group's total purchase. The Group's five largest suppliers accounted for 40.8% of the Group's total purchase.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or customers during the year ended 31 December 2022.

## TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

## SUFFICIENCY OF PUBLIC FLOAT

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



# Directors' Report

## INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) in relation to the Director's and officer's liability insurance is currently in force and was in force during the Reporting Period.

## CORPORATE GOVERNANCE

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the Corporate Governance Code as its own code to govern its corporate governance practices. Information on the corporate governance practice adopted by the Company is set out on page 66 to 78 under the section headed "Corporate Governance Report" in this annual report.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the Reporting Period, except for the code provisions which are explained in the section headed "Corporate Governance Report" in this annual report.

The Board will continue to review and monitor the practices of the Company with an aim to maintain a high standard of corporate governance.

## AUDITOR

There has been no change in auditors in any of the preceding three years. The consolidated financial statements for the year ended 31 December 2022 have been audited by PricewaterhouseCoopers, Certified Public Accountants.

## COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2022, the Company is in compliance with relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board

**Li Qing**

*Chairman*

Beijing, China, 24 March, 2023

# Biographical Details of Directors and Senior Management



As at the date of this annual report, biographical details of the Directors and senior management are set out below.

## DIRECTORS

The Board currently comprises seven Directors, of which two are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
<b>Executive Directors</b>			
Mr. Li Qing (李青)	48	Chairman, Executive Director and Chief Executive Officer	20 January 2020
Mr. Bai Wei (白瑋)	45	Executive Director	4 March 2020
<b>Non-executive Directors</b>			
Ms. Liu Ming (劉銘)	50	Non-executive Director	4 March 2020
Mr. Lu Xiaoyin (魯曉寅)	44	Non-executive Director	5 November 2020
<b>Independent Non-Executive Directors</b>			
Mr. Bai Kun(白崑)	46	Independent Non-executive Director	24 September 2021
Mr. Zhu Lin (朱霖)	49	Independent Non-executive Director	24 June 2020
Mr. Ding Zhiping (丁治平)	63	Independent Non-executive Director	24 June 2020

## EXECUTIVE DIRECTORS

**Mr. Li Qing (李青)**, aged 48, is an executive Director, the chairman of the Board and the chief executive officer of our Company. He is responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Li is our founder and has approximately 26 years' experience in game development. Prior to founding our Group, Mr. Li served as a chief design officer of e-Pie Entertainment & Technology Corporation (Beijing) (北京歡樂億派科技有限公司) from August 2000 to March 2004, during which he was responsible for game development. Until September 2014, he served as a chief development officer in the Perfect World Group, during which he was responsible for game development. Mr. Li founded our Group in September 2014. He currently also holds directorships in several subsidiaries within our Group.

Mr. Li obtained a bachelor's degree in physics and a master's degree in nuclear energy science and engineering from Tsinghua University (清華大學) in Beijing in July 1997 and June 2000, respectively. In addition, Mr. Li also obtained an executive master of business administration from Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.



## Biographical Details of Directors and Senior Management

**Mr. Bai Wei (白瑋)**, aged 45, is an executive Director and the general manager of program center (程序中心) of our Company. He is primarily responsible for assisting in the overall management, strategic planning and decision-making of products research and development of our Group.

Mr. Bai has over 20 years of experience in the information technology and game industry. From April 2004 to January 2015, Mr. Bai was a senior management member in the Perfect World Group. Mr. Bai joined our Group in January 2015. Since March 2018, he has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Mr. Bai obtained a bachelor's degree and a master's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in September 1999 and January 2002, respectively.

### NON-EXECUTIVE DIRECTORS

**Ms. Liu Ming (劉銘)**, aged 50, is a non-executive Director of our Company. She is primarily responsible for supervising the management of our Group.

Ms. Liu has extensive experience in the game industry. Before joining Tencent Games, she held executive positions in two other gaming companies. Ms. Liu has been working at Tencent Games, an online game platform operated by Tencent since November 2013, and currently serves as a vice president, overseeing the domestic and overseas distribution of mobile games of Tencent Games. Since March 2018, she has been a director of Tianjin Loong, one of the subsidiaries within our Group.

Ms. Liu obtained a master's degree in pedagogy from East China Normal University (華東師範大學) in Shanghai in July 2000.

**Mr. Lu Xiaoyin (魯曉寅)**, aged 44, is a non-executive Director of our Company. He is primarily responsible for supervising the management of our Group.

Mr. Lu has extensive experience in the game industry. From 2001 to 2004, he served as the artistic director in e-Pie Entertainment & Technology Corporation (Beijing) (北京歡樂億派科技有限公司). He has successively been working at Perfect World Co., Ltd. (完美世界股份有限公司, a company established in the PRC of which its shares are listed on the Shenzhen Stock Exchange (stock code: 002624)) and its respective affiliate(s) as well as its subsidiary(ies) since April 2004, and currently serves as the president, a director and the co-chief executive officer in Perfect World Co., Ltd. (完美世界股份有限公司) and the chief executive officer in Perfect World Games Co., Ltd. (完美世界遊戲有限責任公司).

Mr. Lu obtained his bachelor's degree of Art Education from Zhejiang Normal University (浙江師範大學) in Zhejiang in July 2001. He obtained the master's degree in Business Administration for Senior Management Personnel from the Cheung Kong Graduate School of Business (長江商學院) in Beijing in September 2010.

# Biographical Details of Directors and Senior Management



## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Bai Kun (白崑)**, aged 46, is appointed as an independent non-executive Director of the Company with effect from 24 September 2021. He is primarily responsible for supervising the Board and providing independent judgement.

Mr. Bai has extensive experience in accounting and financial management. From September 2002 to February 2010, he served as a manager in the Tianjin branch of PricewaterhouseCoopers (普華永道中天會計師事務所有限公司天津分所). From February 2010 to August 2014, he served as the financial controller of Tianjin Walkman Biomaterial Co., Ltd. (天津市威曼生物材料有限公司). He has successively been working at Tsaker New Energy Tech Co., Limited (彩客新能源科技有限公司, a company listed on The Stock Exchange of Hong Kong Limited (stock code: 1986)), formerly known as Tsaker Chemical Group Limited 彩客化學集團有限公司 and its subsidiary(ies) since September 2014, and currently serves as an executive director, the chief financial officer and joint company secretary in Tsaker New Energy Tech Co., Limited (彩客新能源科技有限公司), a director of Hebei Tsaker New Materials Technology Company Limited (河北彩客新材料科技股份有限公司) and the sole director of Tsaker Chemical (Hong Kong) Company Limited (彩客化學(香港)有限公司).

Mr. Bai obtained a bachelor's degree in Technoeconomics in July 1999 from Tianjin University and a master's degree in Technoeconomics in March 2002. Mr. Bai has been a member of the Chinese Institute of Certified Public Accountants since June 2010.

**Mr. Zhu Lin (朱霖)** (formerly known as Zhu Xiaolin (朱小林)), aged 49, is an independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgment.

Mr. Zhu has extensive experience in accounting and financial consulting. From October 2003, he served as a senior manager at the mergers and acquisitions department of PricewaterhouseCoopers Consulting (Shenzhen) Co., Ltd. (Beijing Branch) (普華永道諮詢(深圳)有限公司北京分公司). Since October 2005, Mr. Zhu has been serving as a partner of Beijing Legendhouse CPAs (北京潤衡會計師事務所) and since March 2006, Mr. Zhu has been serving as a director of Beijing Legendhouse Consulting (北京潤勤諮詢有限公司).

Mr. Zhu obtained a bachelor's degree in overseas financial accounting (會計系外國財務會計專門化) from the Central University of Finance and Economics (中央財經大學) in Beijing in June 1995. Mr. Zhu has been a member of the Chinese Institute of Certified Public Accountants since February 2000. Since October 2020, Mr. Zhu has been serving as a director of Jiangsu Changshu Automotive Trim Group Co., Ltd. (江蘇常熟汽飾集團股份有限公司), formerly known as Changshu Automotive Trim Co., Ltd. (常熟市汽車飾件股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603035). Since March 2015, Mr. Zhu has been serving as an independent non-executive director of Tsaker New Energy Tech Co., Limited (彩客新能源科技有限公司), a company listed on the Stock Exchange (stock code: 1986), formerly known as Tsaker Chemical Group Limited 彩客化學集團有限公司. From November 2020 to August 2022, Mr. Zhu also served as an independent non-executive director of Sino-Ocean Service Holding Limited (遠洋服務控股有限公司), a company listed on the Stock Exchange (stock code: 6677).





## Biographical Details of Directors and Senior Management

**Mr. Ding Zhiping (丁治平)**, aged 63, is an independent non-executive Director. He is primarily responsible for supervising our Board and providing independent judgment.

Mr. Ding has over 43 years of work experience. Since May 2022, Mr. Ding has been working at Xinjiang Tianshun Supply Chain Co., Ltd. (新疆天順供應鏈股份有限公司, a company established in the PRC of which its shares are listed on the Shenzhen Stock Exchange (stock code: 002800)) where he is currently the chairman of the board of directors and the general manager. From April 2002 to May 2022, he served as the chairman of the board of directors and the general manager at Xinjiang International Industry Co., Ltd. (新疆國際實業股份有限公司). From November 1995 to April 1997, he served as a senior engineer at Bank of China, Xinjiang Branch. From February 2002 to April 2002, he served as chairman of the board of directors and general manager at Xinjiang Foreign Economic and Trade Group Co., Ltd. (新疆外經貿集團有限責任公司).

Mr. Ding obtained a bachelor's degree in computer science from the Hefei University of Technology (合肥工業大學) in Hefei in September 1987, a master's degree in business management from the Auckland Institute of Studies in Auckland, New Zealand in April 1999 and an executive master of business administration from the Cheung Kong Graduate School of Business (長江商學院) in Beijing in May 2010.

### DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

During the Reporting Period and as at the date of this annual report, (i) Ms. Liu Ming serves as a vice president, overseeing the domestic and overseas distribution of mobile games of Tencent Games, and (ii) Mr. Lu Xiaoyin serves as the president, a director and the co-chief executive officer in Perfect World and the chief executive officer in Perfect World Games. Save for the above, to the knowledge of the Board, none of the Directors is a director or employee of a company which has an interest in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### SENIOR MANAGEMENT

**Mr. Li Qing (李青)**, is the chief executive officer of our Company. See the paragraph headed "EXECUTIVE DIRECTORS" above.

**Mr. Zhang Yu (張羽)**, aged 46, is the chief technical officer and general manager of the engine center (引擎中心) of our Company. Mr. Zhang is responsible for leading the research and application of engine technology.

Mr. Zhang has extensive experience in the game industry. From March 2004 to January 2015, Mr. Zhang served as the program director of Studio I (工作一室) at the Perfect World Group. Mr. Zhang joined our Group in January 2015 and since then Mr. Zhang has been serving as the general manager of the engine center (引擎中心) of our Group.

Mr. Zhang obtained a bachelor's degree in electrical engineering from Tsinghua University (清華大學) in Beijing in July 2000.

**Mr. Li Yi (李軼)**, aged 43, is the vice president and chief financial officer of our Company. Mr. Li is responsible for providing financial management and formulating financial strategies of our Group.

Mr. Li has extensive experience in accounting and financial management. From September 2001 to September 2011, Mr. Li worked at the audit department and the tax department of Ernst & Young (China) Advisory Limited Beijing Office in which his last position was senior manager. From February 2013 to October 2015, Mr. Li served as a tax director at the Perfect World Group. Mr. Li joined our Group in November 2015 and since then Mr. Li has been serving as the vice president and chief financial officer of our Group.

## Biographical Details of Directors and Senior Management



Mr. Li obtained a bachelor's degree in accounting (Certified Public Accountant) from Capital University of Economics and Business (首都經濟貿易大學) in Beijing in July 2001. He is accredited as a Certified Tax Agent (註冊稅務師) by the Beijing Bureau of Human Resource and Social Security (北京市人力資源和社會保障局) in September 2009. He has obtained the Board Secretary Qualification from the Shenzhen Stock Exchange (深圳證券交易所) in April 2019.

**Mr. Wu Shenghe (吳盛鶴)**, aged 41, is the executive president of our Company. He is mainly responsible for the Company's global business, project management and support, government affairs, public relationships and human resources functions.

Mr. Wu has extensive experience in global business development and organizational development. From 2005 to 2010, he served as talent and organization development manager at Kimberly-Clark (China) Co., Ltd. From 2010 to 2015, he served as senior human resources director at Perfect World (Beijing) Network Technology Co., Ltd. (完美世界(北京)網絡技術有限公司). From 2013 to 2015, he served as general manager at Perfect World (Beijing) Network Technology Co., Ltd., Shanghai Branch. From 2015 to September 2020, he served as vice president of general management in our Company.

Mr. Wu obtained a bachelor's degree in Environmental Engineering from Beijing Forestry University (北京林業大學) in July 2005. He is also a certified coach of the International Coaching Federation.

### JOINT COMPANY SECRETARIES

**Ms. Hao Lili (郝莉麗)**, aged 43, has been appointed as one of our joint company secretaries with effect from the Listing Date.

Ms. Hao has extensive experience in the legal industry. From September 2011 to March 2015, Ms. Hao served as a senior legal consultant at the Perfect World Group, during which she was primarily responsible for M&A support, intellectual property management and compliance. Ms. Hao joined our Group in May 2016 as the legal director of our Group. She is primarily responsible for leading the legal and compliance work of our Group.

Ms. Hao obtained a bachelor's degree in economic law from the China University of Political Science and Law (中國政法大學) in Beijing in July 2002 and a master's degree in international business law from the University of Nottingham, the UK in December 2003. Ms. Hao holds a Legal Profession Qualification Certificate (法律職業資格證書) granted by the Ministry of Justice of the PRC (中華人民共和國司法部) in February 2006 and Securities Practice Qualification Certificate (證券從業資格證) granted by the Securities Association of China in May 2015.

**Ms. Zhang Xiao (張瀟)**, aged 35, has been appointed as one of our joint company secretaries with effect from 15 January 2021.

Ms. Zhang is an assistant vice president of SWCS and has over ten years of experience in the corporate secretarial field. Ms. Zhang has been admitted as an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom in 2019. Ms. Zhang obtained a bachelor's degree in Computer Science from The Chinese University of Hong Kong in 2010 and a master's degree in corporate governance from Hong Kong Metropolitan University in 2018.

Reference is made to the waiver granted to the Company by the Stock Exchange from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules on 15 January 2021. Ms. Hao Lili will be assisted by Ms. Zhang Xiao during the period from 15 January 2021 to 15 July 2023. Further details of the waiver are set out in the Company's announcement dated 15 January 2021.



# Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound corporate governance policies and measures, and the Board is responsible for performing such corporate governance duties.

During the year ended 31 December 2022, the Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for code provisions which are explained in this report. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and Directors, with reference to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

The key corporate governance principles and practices of the Company are summarized as follows:

## BOARD OF DIRECTORS

### Responsibilities

The Board is responsible for leadership and the internal control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board has general powers for the management and is conducting the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

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

The Board confirms that corporate governance shall be the joint responsibility among Directors and the corporate governance functions include:

- (i) to review and monitor the Company's policies and practices in the aspect of compliance with legal and regulatory requirements;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

- (iv) to develop and review the Company's policies and practice on corporate governance, and make recommendations and report relevant matters to the Board;
- (v) to review the Company's compliance with the Corporate Governance Code and the disclosure in the corporate governance report; and
- (vi) to review and monitor the Company's compliance with the whistleblowing policy of the Company.

The Board has performed the functions set out in code provision A.2.1 of the Corporate Governance Code during the Reporting Period.

## **Board Composition**

The Board currently consists of seven Directors, namely Mr. Li Qing (chairman of the Board), Mr. Bai Wei as executive Directors, Ms. Liu Ming and Mr. Lu Xiaoyin as non-executive Directors, and Mr. Bai Kun, Mr. Zhu Lin and Mr. Ding Zhiping as independent non-executive Directors. None of the Directors or senior management has a relationship (including financial, family or other substantial or related relationship) with each other. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

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

## **Chairman and Chief Executive Officer**

Under code provision C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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

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

## **Independent Non-executive Directors**

During the year ended 31 December 2022 and up to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board, of whom Mr. Zhu Lin is the Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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



# Corporate Governance Report

## Directors' Training and Professional Development

All Directors attended various trainings in the Reporting Period, including trainings regarding the updating of the Listing Rules, the responsibilities and continuous obligations of Directors and the Environmental, Social and Governance Reporting Guide. The Company had arranged suitable trainings for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

<b>Name of Director</b>	<b>Attending relevant training courses, seminars, conferences and/or reading relevant materials</b>
<b>Executive Directors</b>	
Mr. Li Qing (李青)	✓
Mr. Bai Wei (白璋)	✓
<b>Non-executive Directors</b>	
Ms. Liu Ming (劉銘)	✓
Mr. Lu Xiaoyin (魯曉寅)	✓
<b>Independent Non-executive Directors</b>	
Mr. Bai Kun (白崑)	✓
Mr. Zhu Lin (朱霖)	✓
Mr. Ding Zhiping (丁治平)	✓

## Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with our Company with an initial term of three years with effect from the Listing Date, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other (subject always to re-election as and when required under the Articles of Association). No Director's remuneration is payable to the executive Directors under the agreement.

Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. Each of our non-executive Directors and independent non-executive Directors is appointed with an initial term of three years with effect from the date of the appointment subject to termination in certain circumstances as stipulated in the relevant letters of appointment. Under these appointment letters, each of the independent non-executive Directors will receive a Director's remuneration of RMB100,000.

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).

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself for re-election by the Shareholders at the next following general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

## Independent Views

The Company recognises that Board independence is pivotal in good corporate governance and Board effectiveness. The Board has established mechanisms to ensure independent views and input from any Director are conveyed to the Board for enhancing an objective and effective decision making.

The governance framework and the following mechanisms are reviewed annually by the Board, to ensure their effectiveness:

1. Three out of seven Directors are independent non-executive Directors, which meets the requirements of the Listing Rules that the Board must have at least three independent non-executive directors and must appoint independent non-executive directors representing at least one-third of the Board.
2. The Nomination Committee will assess the independence of a candidate who is nominated to be a new independent non-executive Director and the contribution to the diversity of the Board according to the board diversity policy adopted by the Company from time to time before appointment and also the continued independence of existing independent non-executive Directors and their time commitments annually. On an annual basis, all independent non-executive Directors are required to confirm in writing their compliance of independence requirements pursuant to Rule 3.13 of the Listing Rules, and to disclose the number and nature of offices held by them in public companies or organisations and other significant commitments.
3. External independent professional advice is available as and when required by individual Directors.
4. All Directors are encouraged to express freely their independent views and constructive challenges during the Board and/or Board Committee meetings.
5. No equity-based remuneration with performance-related elements will be granted to independent non-executive Directors.
6. A Director (including independent non-executive Director) who has a material interest in a contract, arrangement or other proposal shall not vote or be counted in the quorum on any Board resolution approving the same.
7. The Chairman meets with independent non-executive Directors annually without the presence of the executive Directors and non-executive Directors.



# Corporate Governance Report

## BOARD AND COMMITTEE MEETINGS

The Company adopts a practice to convene Board meetings regularly which is at least four meetings per year and roughly on a quarterly basis. A notice of a regular Board meeting shall be delivered to all the Directors at least 14 days in advance with the matters to be discussed specified in agenda of the meeting. For other Board and committee meetings, reasonable notice is generally served. Agendas or relevant documents of the Board or committee meetings shall be despatched to the Directors or members of the committees at least 3 days prior to the convening of the meetings to ensure that they have sufficient time to review the relevant documents and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. The minutes are kept by the joint company secretaries of the Company and the copies are circulated to all Directors for reference and record purpose.

During the year ended 31 December 2022, a certain regular Board meeting was held convened with less than 14 days' notice to facilitate the Directors' timely reaction and expeditious decision in respect of internal affairs of the Group. Such Board meeting was held with a shorter notice period than required with no objection by the Directors and all Directors attended such meeting. The Company will use its best endeavor to meet the requirement of code provision in the future.

The minutes of the Board meetings and committee meetings were thoroughly recorded in detail and include all matters under consideration and decisions made including any problems raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Directors have a right to review the minutes of the Board meetings and the committee meetings.

# Corporate Governance Report



During the Reporting Period, at the Board meetings, committee meetings and general meeting the attendance record of each Director are set out in the table below:

Name of Director	Attendance/No. of Meetings Held during the Reporting Period <sup>(1)</sup>					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	General meeting
<b>Executive Directors</b>						
Li Qing	5/5	–	1/1	1/1	3/3	2/2
Bai Wei	5/5	–	–	–	–	2/2
<b>Non-executive Directors</b>						
Liu Ming	5/5	–	–	–	–	2/2
Lu Xiaoyin	5/5	–	–	–	–	1/2
<b>Independent Non-executive Directors</b>						
Bai Kun <sup>(3)</sup>	5/5	4/4	1/1	1/1	–	2/2
Zhu Lin	5/5	4/4	–	–	3/3	2/2
Ding Zhiping	5/5	4/4	1/1	1/1	3/3	2/2

Note:

(1) The Directors of the Board who did not attend the meeting in person have all entrusted proxies to attend the meeting, which was not counted into their attendance record.

At the Board meetings held during the Reporting Period, the Board discussed a wide range of matters, including the Company's financial and operational performances, approved interim and annual results of the Company, business prospects and other significant matters.

Apart from the above meetings, other matters subject to the approval of the Board were handled in the form of written resolutions. Code provision C.5.7 of the Corporate Governance Code stipulates that if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. During the year ended 31 December 2022, the Board approved the continuing connected transactions in respect of the Licensing Agreement and the Exclusive Agency and Operation Agreement, by way of circulation of written resolutions in lieu of physical board meetings on 18 June 2022 and on 26 August 2022, respectively, for which Ms. Liu Ming, a non-executive Director and an employee of Tencent Group, was regarded as having material interests therein. The Board considered that (i) the terms of the aforesaid transactions are fair and reasonable, are on normal commercial terms or better and are in the ordinary and usual course of business of the Company and are in the interests of the Company and the shareholders of the Company as a whole; (ii) Ms. Liu Ming had abstained from voting on the relevant written resolutions of the Board in approving the aforesaid transactions; (iii) prior to the official signing on the written resolution, related directors had thoroughly discussed the aforesaid transactions through digital methods; and (iv) the adoption of written resolutions would facilitate and maximize the effectiveness of decision-making and implementation.





# Corporate Governance Report

## BOARD COMMITTEES

The Company has four principal Board committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

### Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Mr. Zhu Lin, Mr. Bai Kun and Mr. Ding Zhiping. Mr. Zhu Lin has appropriate accounting and financial management expertise and is the chairman of the Audit Committee. The primary duties of the Audit Committee include (i) making recommendations to our Board on the appointment, re-appointment and removal of external auditor; (ii) reviewing financial statements; (iii) providing material advice in respect of our financial reporting process; (iv) overseeing our internal control and risk management systems and audit process and discussing the risk management and internal control system with management to ensure that management has performed its duty to have effective systems; and (v) providing advice and comments to our Board on matters relating to corporate governance.

During the relevant meetings, the Audit Committee reviewed the annual results and report for the year ended 31 December 2021, interim results and report for six months ended 30 June 2022, significant issues on the financial reporting and compliance procedures.

### Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Li Qing, Mr. Bai Kun and Mr. Ding Zhiping. Mr. Li Qing has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board; and (ii) reviewing and making recommendations to the Board on appointment of Directors and the management of the Board succession.

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board in accordance with the board diversity policy adopted by the Company. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a Director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the relevant meetings, the Nomination Committee considered, among others, the proposed appointment of a Director.

## **Nomination Policy**

According to the Nomination policy of the Company, in evaluating and selecting any candidate for directorship, the Nomination Committee would consider the criteria, including, among other things, character and integrity, qualifications (cultural and educational background, professional qualifications, skills, knowledge and experience and diversity aspects under the board diversity policy), any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity, and willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s).

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Directors and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship with a ranking of the candidates (if applicable) by order of preference based on the needs of the Company and reference check of each candidate.

## **Board Diversity Policy**

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background, ethnicity and length of service. The ultimate decision of appointment will be based on merit and the contribution which the selected candidates will bring to our Board. The Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness. The Board will consider setting measurable objectives to implement the board diversity policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

For the year ended 31 December 2022 and as at the date of this annual report, the Board consists of six male members and one female members. The Nomination Committee considered that the Board was sufficiently diverse in terms of gender and the Board had not set any measurable objectives. The Directors have a balanced mix of knowledge and skills, including overall management and strategic development, human resources, information technology, accounting and financial management, risk management, corporate governance and evaluation of properties and assets. They obtained degrees in various majors including computer science, physics, electrical engineering, financial accounting, techno-economics, pedagogy and art education. We have three independent non-executive Directors with different industry backgrounds, representing more than one-third of the Board. Furthermore, our Board has a wide range of age, ranging from 44 years old to 63 years old. Taking into account our existing business model and specific needs as well as the different backgrounds of our Directors, the composition of our Board satisfies our board diversity policy.

As at 31 December 2022, the gender ratio of the Group's workforce was 65.1% male to 34.9% female. The Company has implemented fair employment practices to achieve gender diversity and our hiring is merit-based and non-discriminatory.



# Corporate Governance Report

## Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, namely, Mr. Bai Kun, Mr. Ding Zhiping and Mr. Li Qing. Mr. Bai Kun is the chairman of the committee. The primary duties of the Remuneration Committee include (i) making recommendations to the Board regarding the Group's policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management and on employee benefit arrangements; and (iii) reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules. On 4 November 2022, the Remuneration Committee reviewed and approved the proposed adoption of the RSU Scheme and the amendment to the Share Option Scheme in light of the amendments to the Listing Rules relating to share schemes. There is no matter relating to any grant of options or awards to the Directors and senior managers as set out in Rule 17.03(F) and Rules 17.06B(7) and (8) of the Listing Rules.

## Risk Management Committee

The Company has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of three members, namely, Mr. Ding Zhiping, Mr. Li Qing and Mr. Zhu Lin. Mr. Ding Zhiping is the chairman of the committee. The primary duties of the Risk Management Committee include (i) establishing, maintaining and overseeing the execution of risk management policies and procedures of our Company and making recommendations to the Board accordingly; (ii) collecting and administrating the information of connected persons; (iii) managing and reviewing connected transactions, and controlling risks associated with connected transactions; (iv) reviewing information and disclosures of connected persons and connected transactions in public disclosure documents of our Company; (v) formulating the regulations and management regulations in relation to our connected transactions; and (vi) proposing to the Board for approval after deliberation of the connected transactions.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code during the year ended 31 December 2022.

## AUDITOR'S REMUNERATION

For the year ended 31 December 2022, the fees paid/payable to PricewaterhouseCoopers for audit, audit-related and non-audit services (primarily related to tax advisory services) are approximately RMB3.80 million and RMB0.023 million, respectively.

## JOINT COMPANY SECRETARIES

Ms. Hao Lili and Ms. Zhang Xiao were appointed as the Company's joint secretaries. Ms. Zhang Xiao serves as the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited. Ms. Hao Lili is the primary contact of Ms. Zhang Xiao in the Company. The biographical details of Ms. Hao Lili and Ms. Zhang Xiao are set out under the section headed "Biographical details of Directors and Senior Management" in this annual report. Each of Ms. Hao Lili and Ms. Zhang Xiao participated in not less than 15 hours of relevant professional trainings in 2022 in accordance with Rule 3.29 of the Listing Rules.

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the qualifications of one of our joint company secretaries, Ms. Hao Lili. Ms. Hao Lili will be assisted by Ms. Zhang Xiao during the period from 15 January 2021 to 15 July 2023.

## ACCOUNTABILITY AND AUDIT

The Directors of the Company are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the Reporting Period. A statement from the auditor about its reporting responsibilities on the financial statements is set out under the section headed “Independent Auditor’s Report” in this annual report. In preparing the financial statements for the year ended 31 December 2022, the Directors of the Company have selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group’s ability to continue as a going concern.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control and risk management systems in order to safeguard the Group’s assets and Shareholders’ interests and reviewing the effectiveness of the Group’s internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The Board has also reviewed and recognized the effectiveness of such systems for the Reporting Period. Such systems are designed to manage and mitigate risks inherent in the Group’s business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Company has established the Audit Committee and the Risk Management Committee to monitor the implementation of risk management policies across the Company on an ongoing basis to ensure that the internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The Company also maintains an internal audit department, which is responsible for reviewing the effectiveness of internal controls and reporting to the Audit Committee on any issues identified. The internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures required to be implemented to resolve such issues. The internal audit department reports to the Audit Committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The Audit Committee then discusses the issues and reports to the board of directors, as necessary.

The Audit Committee, the Risk Management Committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure that our policies and implementation are effective and sufficient.

The Board considers that the Group’s risk management and internal control systems are adequate and effective for the year ended 31 December 2022.

## Business Risk Management

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



# Corporate Governance Report

## **Financial Risk Management**

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

## **Information Risk Management and Data Protection**

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that user data is protected, and that leakage and loss of such data is avoided.

## **Legal Compliance and Intellectual Property Rights Risk Management**

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. We continually review the implementation of our risk management policies and measures to ensure that our policies and implementation are effective and sufficient.

## **Human Resource Risk Management**

We provide regular and specialized training tailored to the needs of our employees in different departments. We have in place multiple employee policies, including an employee handbook and the code of business conduct, approved by our management and distributed to all our employees, which contains internal rules and guidelines regarding best commercial practice, work ethics, fraud prevention mechanisms, negligence and corruption. We also have in place an anti-corruption policy to safeguard against any corruption within the Company.

## **Inside Information**

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

## **DIVIDEND POLICY**

Subject to Articles of Association and all applicable laws and regulations, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board. Any dividends the Company pays will be determined by the Board, taking into account factors including the Company's actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that the Board deems to be appropriate.

## **CHANGE IN CONSTITUTIONAL DOCUMENTS**

During the Reporting Period, there was no significant change in constitutional documents of the Company.

## **IMPORTANT EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed in this annual report, the Group did not have any important events after the Reporting Period.

## COMMUNICATION WITH SHAREHOLDERS

The Company has adopted its “Shareholders Communication Policy” with an aim to ensure the Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company in order to enable the Shareholders to exercise their rights in an informed manner, and to allow the Shareholders to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities, including issue/publication of, among others, annual report and interim report, announcement, circular and press release both in English and Chinese, in order to provide the Shareholders and the capital market with the Company’s latest development. The information is also posted and made available for downloading at the Company’s website.

The Company endeavors to maintain an on-going dialogue with the Shareholders and in particular, through the annual general meeting and other general meetings. Shareholders are encouraged to attend the annual general meeting to ensure a high level of accountability and understand the strategy and development of the Group. The Company will arrange the Chairman of the Board and the respective chairman of each of the Board committees, or if failing so due to unexpected and/or uncontrollable reasons, his/their duly appointed delegate(s), to attend the general meetings to exchange views with shareholders and answer their questions. All Directors are encouraged to attend general meetings and develop a balanced understanding of the view of shareholders.

The notice of the annual general meeting is distributed to all Shareholders at least 21 days prior to such annual general meeting, and the notice of a general meeting, other than the annual general meeting, is distributed to all Shareholders at least 14 days prior to such general meeting.

Therefore, upon review the implementation and effectiveness of the shareholders’ communication policy conducted during the reporting period, the Board considers that the Company’s shareholder communication policy is still effective.

## SHAREHOLDERS’ RIGHTS

### Convening an extraordinary general meeting

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.



# Corporate Governance Report

## **Putting forward proposals at general meeting**

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

If a Shareholder wishes to propose a person other than a Director for election as a Director at the Company's general meeting ("Proposal"), he/she should lodge a written notice setting out the Proposal and his/her contact details at the principal place of business of the Company in Hong Kong or the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited. The Proposal should include the biographical details of the proposed Director and a written notice signed by the proposed Director confirming his/her willingness to be elected, the accuracy and completeness of his/her biographical details.

## **Enquiries to the Board**

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company as follows:

Address: 4/F, No. 8 Hangxing Science Park, No.11 HePingLi East Street, Dongcheng District, Beijing, PRC

Attention: Office of the Board

The Company will not normally deal with verbal or anonymous enquiries. The Company will arrange designated persons to respond to the relevant written enquiries in a timely manner.

On behalf of the Board

**Li Qing**

*Chairman*

Beijing, China, 24 March 2023

## To the Shareholders of Archosaur Games Inc.

(incorporated in the Cayman Islands with limited liability)

## OPINION

### What we have audited

The consolidated financial statements of Archosaur Games Inc. (the “Company”) and its subsidiaries (the “Group”), which are set out on pages 85 to 168, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- 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 31 December 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.

### 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.





# Independent Auditor’s Report

## KEY AUDIT MATTERS

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

Key audit matter identified in our audit is related to revenue recognition – Estimates of lifespan of in-game virtual items with reference to expected playing period of paying players (“Player Relationship Period”) in the Group’s self-operated online game revenue.

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### Revenue recognition – Estimates of expected Player Relationship Period in the Group’s self-operated online game revenue

We performed the following procedures to address this key audit matter:

Refer to Note 2.21, Note 4(a) and Note 5 to the consolidated financial statements.

We obtained an understanding of the management’s internal control and assessment process of the estimation of the expected Player Relationship Period and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of the inherent risk factors such as subjectivity.

During the year ended 31 December 2022, the Group’s revenue from Integrated game publishing and operation amounted to approximately RMB345 million. It was mainly derived from the sales of in-game virtual items.

We evaluated and tested, on a sample basis, key 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 Player Relationship Period of new games prior to their launches; and (ii) changes in the estimated Player Relationship Period of existing games based on periodic reassessment on any indications triggering such changes.

The in-game virtual items sold by the Group are categorised either as consumable or durable in nature. Revenue derived from consumable in-game virtual items is recognised once they are consumed or over the period that they are expiring, while revenue derived from durable in-game virtual items is recognised ratably over the lifespan of in-game virtual items with reference to the expected Player Relationship Period, on a game by game basis.

We challenged and evaluated the appropriateness of management’s judgements and estimations made in determining and re-assessing the expected Player Relationship Period including the games profile, target audience and players of different demographics groups of the relevant games with reference to the historical data, market data and practice.

The determination of the expected Player Relationship Period for relevant in-game virtual items requires significant judgements and estimates by the management. These judgements and estimates include (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to the games profile (including the observation of historical paying players’ behaviour with reference to their log-in records, churn rates, and games life-cycle), target audience and players of different demographics groups; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period.

# Independent Auditor's Report



## Key Audit Matter

## How our audit addressed the Key Audit Matter

We focused on auditing the determination of the expected Player Relationship Period of each game because it is subject to high degree of estimation uncertainty. The inherent risk in relation to the determination of the expected Player Relationship Period is considered significant due to the subjectivity of significant assumptions used.

We assessed, on a sample basis, the accuracy and the integrity of the key data inputs used in the determination of the expected Player Relationship Period, including the observation of historical paying players' behaviour with references to their log-in records and calculation of churn rates. We also tested the information system logic for generation of reports, and checked, on a sample basis, the monthly computation of revenue recognised on selected games based on reports generated from the Group's information system.

Based on the procedures performed, we considered that the significant judgements and estimates adopted by management in determining the expected Player Relationship Periods are supported by the evidence obtained.



# 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.

## 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.

# Independent Auditor's Report



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



## Independent Auditor's Report

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 Yuen Kwok Sun.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 24 March 2023

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2022



	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
<b>Revenue</b>	5	<b>584,121</b>	920,827
Cost of revenue	8	<b>(160,501)</b>	(207,296)
<b>Gross profit</b>		<b>423,620</b>	713,531
Research and development expenses	8	<b>(746,364)</b>	(705,626)
Selling and marketing expenses	8	<b>(280,578)</b>	(247,190)
Administrative expenses	8	<b>(108,200)</b>	(97,926)
Net (allowance)/reversal for impairment on financial assets	8	<b>(173)</b>	2,930
Other income	6	<b>3,916</b>	6,722
Other (losses)/gains, net	7	<b>(63,658)</b>	38,132
<b>Operating loss</b>		<b>(771,437)</b>	(289,427)
Finance income	10	<b>23,524</b>	22,113
Finance costs	10	<b>(6,438)</b>	(10,491)
Finance income, net	10	<b>17,086</b>	11,622
Share of results of investments accounted for using the equity method	11	<b>(13,437)</b>	(9,950)
<b>Loss before income tax</b>		<b>(767,788)</b>	(287,755)
Income tax expense	12	<b>(759)</b>	(15,570)
<b>Loss for the year</b>		<b>(768,547)</b>	(303,325)
<b>Loss attributable to:</b>			
– Owners of the Company		<b>(768,547)</b>	(303,325)
– Non-controlling interests		<b>–</b>	–
		<b>(768,547)</b>	(303,325)
<b>Loss per share attributable to owners of the Company for the year (in RMB/share)</b>	13		
– Basic		<b>(0.98)</b>	(0.38)
– Diluted		<b>(0.98)</b>	(0.38)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Loss for the year</b>	<b>(768,547)</b>	(303,325)
<b>Other comprehensive loss, net of tax:</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<b>39,745</b>	(18,745)
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	<b>168,619</b>	(57,792)
<b>Total comprehensive loss for the year</b>	<b>(560,183)</b>	(379,862)
<b>Attributable to:</b>		
– Owners of the Company	<b>(560,183)</b>	(379,862)
– Non-controlling interests	<b>–</b>	–
	<b>(560,183)</b>	(379,862)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

As at 31 December 2022

	Note	As at 31 December	
		2022 RMB'000	2021 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	29,308	33,667
Right-of-use assets	17	100,343	134,525
Intangible assets	16	128,317	113,339
Investments accounted for using the equity method	11	78,087	61,524
Prepayments, other receivables and other assets	20	15,769	18,797
Financial assets at fair value through profit or loss	21	288,834	192,835
Other financial assets at amortized cost	22	34,830	–
Deferred tax assets	27	1,953	1,762
		<b>677,441</b>	<b>556,449</b>
<b>Current assets</b>			
Trade receivables	19	131,348	155,934
Prepayments, other receivables and other assets	20	90,155	65,157
Financial assets at fair value through profit or loss	21	440,661	458,289
Term deposits	23(b)	354,846	574,132
Restricted Cash	23(c)	25,906	35,771
Cash and cash equivalents	23(a)	1,232,999	1,672,338
		<b>2,275,915</b>	<b>2,961,621</b>
<b>Total assets</b>		<b>2,953,356</b>	<b>3,518,070</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	24	55	55
Share premium	24	6,946,624	6,951,009
Other reserves	25	(1,672,199)	(1,868,975)
Accumulated losses		(2,684,251)	(1,915,704)
		<b>2,590,229</b>	<b>3,166,385</b>
<b>Non-controlling interests</b>		<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>2,590,229</b>	<b>3,166,385</b>





# Consolidated Balance Sheet

As at 31 December 2022

	Note	As at 31 December	
		2022 RMB'000	2021 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Contract liabilities	5	28,595	10,513
Lease liabilities	17	62,797	98,780
Deferred income tax liabilities	27	2,786	3,132
		<u>94,178</u>	<u>112,425</u>
<b>Current liabilities</b>			
Trade and other payables	28	157,902	132,162
Contract liabilities	5	64,436	62,209
Current income tax liabilities		6,688	7,790
Lease liabilities	17	39,923	37,099
		<u>268,949</u>	<u>239,260</u>
<b>Total liabilities</b>		<u>363,127</u>	<u>351,685</u>
<b>Total equity and liabilities</b>		<u>2,953,356</u>	<u>3,518,070</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 85 to 168 were approved by the Board of Directors on 24 March 2023 and were signed on its behalf.

.....  
Director

.....  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
<b>Balance at 1 January 2022</b>		<u>55</u>	<u>6,951,009</u>	<u>(1,868,975)</u>	<u>(1,915,704)</u>	<u>3,166,385</u>
<b>Comprehensive loss</b>						
Loss for the year		-	-	-	(768,547)	(768,547)
<b>Other comprehensive loss</b>						
Currency translation differences		-	-	208,364	-	208,364
<b>Total comprehensive loss</b>		<u>-</u>	<u>-</u>	<u>208,364</u>	<u>(768,547)</u>	<u>(560,183)</u>
<b>Transactions with owners in their capacity as owners</b>						
Share-based compensation	26(c)	-	-	36,642	-	36,642
Vesting of restricted share units	24、25	-	40,764	(40,764)	-	-
Repurchase and cancellation of shares	24、25	-	(45,149)	(7,466)	-	(52,615)
<b>Total transactions with owners in their capacity as owners</b>		<u>-</u>	<u>(4,385)</u>	<u>(11,588)</u>	<u>-</u>	<u>(15,973)</u>
<b>Balance at 31 December 2022</b>		<u>55</u>	<u>6,946,624</u>	<u>(1,672,199)</u>	<u>(2,684,251)</u>	<u>2,590,229</u>



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
<b>Balance at 1 January 2021</b>		55	6,907,441	(1,794,051)	(1,564,160)	3,549,285
<b>Comprehensive loss</b>						
Loss for the year		-	-	-	(303,325)	(303,325)
<b>Other comprehensive loss</b>						
Currency translation differences		-	-	(76,537)	-	(76,537)
<b>Total comprehensive loss</b>		-	-	(76,537)	(303,325)	(379,862)
<b>Transactions with owners in their capacity as owners</b>						
Share-based compensation	26(c)	-	-	65,583	-	65,583
Vesting of restricted share units	24 · 25	-	56,225	(56,225)	-	-
Repurchase and cancellation of shares	24 · 25	-	(12,657)	(7,745)	-	(20,402)
Dividends	14	-	-	-	(48,219)	(48,219)
<b>Total transactions with owners in their capacity as owners</b>		-	43,568	1,613	(48,219)	(3,038)
<b>Balance at 31 December 2021</b>		55	6,951,009	(1,868,975)	(1,915,704)	3,166,385

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
<b>Cash flows from operating activities</b>			
Cash used in from operations	29	(530,773)	(151,895)
Interest received		13,458	3,247
Income tax received/(paid)		2,780	(3,104)
<b>Net cash used in from operating activities</b>		<b>(514,535)</b>	<b>(151,752)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(11,076)	(24,790)
Purchases of intangible assets		(29,471)	(95,325)
Purchases of financial assets at fair value through profit or loss	21	(1,604,385)	(1,260,635)
Purchases of other financial assets at amortized cost		(34,830)	–
Payment for investments accounted for using the equity method	11	(30,000)	(40,000)
Proceeds from disposal of property, plant and equipment		97	–
Proceeds from disposal of intangible assets		–	5,975
Placements of restricted cash		(20,847)	(111,447)
Receipt from maturity of restricted cash		30,712	75,676
Purchases of term deposits		(476,880)	(664,660)
Proceeds from maturity of term deposits		740,544	169,155
Proceeds from maturity of financial assets at fair value through profit or loss		1,505,271	829,275
Interest income from term deposits		7,497	18,871
Investment income from financial assets at fair value through profit or loss		8,607	11,330
Investment income from other financial assets at amortized cost		424	–
<b>Net cash generated from/(used in) investing activities</b>		<b>85,663</b>	<b>(1,086,575)</b>



# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
<b>Cash flows from financing activities</b>			
Principal elements of lease payments		<b>(37,951)</b>	(34,442)
Dividends paid	14	-	(48,219)
Interest paid		<b>(5,832)</b>	(7,369)
Payments for shares repurchase		<b>(74,527)</b>	(24,738)
<b>Net cash used in from financing activities</b>		<b>(118,310)</b>	(114,768)
<b>Net decrease in cash and cash equivalents</b>		<b>(547,182)</b>	(1,353,095)
Cash and cash equivalents at beginning of the year		<b>1,672,338</b>	3,055,711
Exchange gains/(losses) on cash and cash equivalents		<b>107,843</b>	(30,278)
<b>Cash and cash equivalents at end of the year</b>	23	<b>1,232,999</b>	1,672,338

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements



## 1 GENERAL INFORMATION

Archosaur Games Inc. (the “Company”) was incorporated in the Cayman Islands on 2 January 2020 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

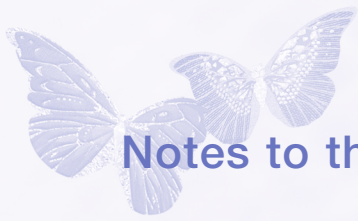
The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the development and operating of mobile games in the People’s Republic of China (the “PRC”) and other countries and regions (the “Group’s Business”).

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 15 July 2020 (“Listing”, “IPO”).

The consolidated financial statements for the year ended 31 December 2022 are presented in Renminbi and all values are rounded to the nearest thousand (RMB’000) unless otherwise indicated. The consolidated financial statements for the year ended 31 December 2022 have been approved on 24 March 2023.

As at 31 December 2022, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiaries	Nature of subsidiaries	Place and date of incorporation/ establishment	Registered capital	Equity interest held as at 31 December		Principal activities/ principal country of operation
				2021	2022	
<b>Directly held by the Company</b>						
Archosaur Entertainment Limited	British Virgin Islands, limited liability company	British Virgin Islands/ 07-Jan-20	US\$50,000	100%	<b>100%</b>	Investment holding, the BVI
<b>Indirectly held by the Company</b>						
Beijing Fantasy Mermaid Technology Limited (北京幻想美人魚科技有限公司)	People’s Republic of China, limited liability company	Beijing, China/ 09-Sep-14	RMB300,000,000	100%	<b>100%</b>	Mobile game development, the PRC
Famous Heart Limited (名心有限公司)	Hong Kong, limited liability company	Hong Kong/ 23-Oct-14	Hong Kong Dollar (“HK\$”) 8,000,000	100%	<b>100%</b>	Overseas mobile game operation, Hong Kong
Famous Game Company Limited (名遊有限公司)	Hong Kong, limited liability company	Hong Kong/ 05-Aug-19	US\$10,000,000	100%	<b>100%</b>	Overseas mobile game operation, Hong Kong
Chengdu Fantasy Mermaid Technology Limited (成都幻想美人魚科技有限公司)	People’s Republic of China, limited liability company	Chengdu, China/ 10-Dec-19	RMB10,000,000	100%	<b>100%</b>	Mobile game development, the PRC
Hai’nan Loong Technology Co., Ltd. (海南祖龍科技有限公司)	People’s Republic of China, limited liability company	Hai’nan, China/ 14-Apr-20	RMB10,000,000	100%	<b>100%</b>	Overseas mobile game operation, the PRC
Q-Generation Games Limited	British Virgin Islands, limited liability company	British Virgin Islands/ 07-Jan-21	US\$50,000	100%	<b>100%</b>	Investment holding, the BVI



# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION (Continued)

Name of subsidiaries	Nature of subsidiaries	Place and date of incorporation/ establishment	Registered capital	Equity interest held as at 31 December		Principal activities/ principal country of operation
				2021	2022	
Finger Games Pte. Ltd.	Singapore, limited liability company	Singapore/ 29-Jan-21	SGD\$1	100%	100%	Overseas mobile game operation, Singapore
Dream Cube Games Limited	Dubai, limited liability company	Dubai/ 31-Jan-21	AED1	100%	100%	Overseas mobile game operation, Dubai
Shanghai Huan Zhi Meng Technology Co., Ltd. (上海幻之夢科技有限公司)	People's Republic of China, limited liability company	Shanghai, China/ 16-Mar-21	RMB10,000,000	100%	100%	Mobile game development, the PRC
Archosaur Games Japan Ltd.	Japan, limited liability company	Japan/ 17-Mar-21	JPY5,000,000	100%	100%	Overseas mobile game operation, Japan
ACS Games Co., Ltd.	Korea, limited liability company	Korea/ 23-Mar-21	KRW100,000,000	100%	100%	Overseas mobile game operation, Korea
Guangzhou Aolong Entertainment Technology Co., Ltd. (廣州奧龍娛樂科技有限公司)	People's Republic of China, limited liability company	Guangzhou, China/ 15-Nov-21	RMB1,000,000	100%	100%	Overseas mobile game operation, the PRC
<b>Indirectly controlled by the Company through Contractual Arrangements</b>						
Tianjin Loong Technology Co., Ltd. (祖龍(天津)科技股份有限公司)	People's Republic of China, joint stock limited company	Tianjin, China/ 15-Apr-15	RMB105,263,157	100%	100%	Mobile game operation, the PRC
Huai'an Loong Technology Co., Ltd. (淮安祖龍科技有限公司)	People's Republic of China, limited liability company	Huai'an, China/ 19-Aug-16	RMB10,000,000	100%	100%	Mobile game operation, the PRC
Shanghai Zu Yun Technology Co., Ltd. (上海祖昀科技有限公司)	People's Republic of China, limited liability company	Shanghai, China/ 23-Nov-20	RMB10,000,000	100%	100%	Mobile game operation, the PRC
Beihai Loong Venture Capital Co., Ltd. (北海祖龍創業投資有限公司)	People's Republic of China, limited liability company	Beihai, China/ 07-Jun-21	RMB450,000,000	100%	100%	Investment, the PRC
Hai nan Long Yao Technology Co., Ltd. (海南龍耀科技有限公司)	People's Republic of China, limited liability company	Hainan, China/ 25-June-21	RMB10,000,000	100%	100%	Mobile game operation, the PRC
Beihai Longhao Venture Capital Co., Ltd. (北海龍濠創業投資有限公司)	People's Republic of China, limited liability company	Beihai, China/ 07-Jan-22	RMB10,000,000	N/A	100%	Investment, the PRC

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Archosaur Games Inc. and its subsidiaries.

### 2.1 Basis of preparation

#### (a) *Compliance with IFRSs*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap.622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the 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 financial statements are disclosed in Note 4.

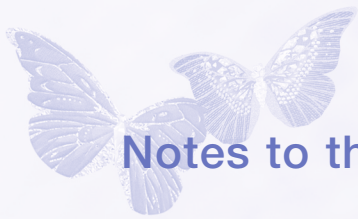
#### (b) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

<b>Standards and amendments</b>	<b>Effective for annual periods beginning on or after</b>
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	1 January 2022
Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations (AG5)	1 January 2022

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.





# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### **(c) New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

<b>Standards and amendments</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Amendments to IAS 8 on Definition of Accounting Estimates	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2024
Amendments to IAS 1 on Non-current Liabilities with Covenants	1 January 2024
Amendment to IFRS 16 on Lease Liability in a Sale and Leaseback	1 January 2024
Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	To be determined

### 2.2 Subsidiaries

#### **(a) Consolidation**

A subsidiary is an entity (including a structured entity) 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 with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.2 (a) (ii)).

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### **(a) Consolidation** *(Continued)*

##### *(i) Subsidiaries controlled through Contractual Arrangements*

The wholly-owned subsidiary of the Company, Beijing Fantasy Mermaid Technology Limited (“Beijing Fantasy Mermaid”), has entered into a series of contractual arrangements dated 10 March 2020 (collectively, the “Contractual Agreements”), including Exclusive Business Cooperation *Arrangements*, Exclusive Option Agreement, Equity Pledge Agreement, and Powers of Attorney, with Tianjin Loong Technology Co., Ltd. (“Tianjin Loong”) and its equity holders, which enable Beijing Fantasy Mermaid and the Group to:

- exercise effective control over Tianjin Loong and its subsidiaries established from time to time (collectively, the “Consolidated Affiliated Entities”);
- exercise equity holders’ voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the technical support, consulting and other services provided by Beijing Fantasy Mermaid;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Tianjin Loong from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Beijing Fantasy Mermaid may exercise such options at any time until it has acquired all equity interests of Tianjin Loong;
- obtain a pledge over the entire equity interests of Tianjin Loong from its respective equity holders as collateral security for all of Tianjin Loong’s payments due to Beijing Fantasy Mermaid and to secure performance of Tianjin Loong’s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over the Consolidated Affiliated Entities, receive variable returns from its involvement with the Consolidated Affiliated Entities, has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is considered to control the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as the controlled entities and consolidated the financial position 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 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 Consolidated Affiliated Entities. The directors of the Company, 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.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### **(a) Consolidation** *(Continued)*

##### *(ii) Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. 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 recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of profit or loss.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 Subsidiaries *(Continued)*

#### **(a) Consolidation** *(Continued)*

##### *(iii) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### *(iv) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is 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 (“OCI”) 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 OCI are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

#### **(b) 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.

### 2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Group’s share of movements in OCI of the investee in OCI. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Associates *(Continued)*

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

Unrealised 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. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

### 2.4 Segment reporting

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

### 2.5 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements 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 currency of the Company is HK\$ and the functional currencies of the Company's major oversea operating subsidiaries are US\$, while the functional currencies of the Company's subsidiaries in the PRC are RMB. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated), which is the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within "finance income/(costs), net". All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within "other gains/(losses), net".

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Foreign currency translation *(Continued)*

#### **(b) Transactions and balances** *(Continued)*

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 recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income ("FVOCI") are recognised in OCI.

#### **(c) Group companies**

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

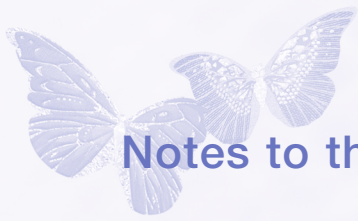
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative 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 OCI.

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 OCI.

### 2.6 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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or in the case of leasehold improvements, the shorter lease term, as follows:

Office equipment	4 years
Furniture	4 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

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 (Note 2.8).

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 consolidated statement of profit or loss.

### 2.7 Intangible assets

#### *(a) Software*

Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three to fifteen years, and recorded in amortization within operating expenses in the consolidated statement of profit or loss. Length of estimated useful life is determined to be the shorter of the period of contractual rights or estimated period during which such software can bring economic benefits to the Group.

#### *(b) Copyrights and game licenses*

Copyrights are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives of one to five years.

Under certain online mobile games arrangements entered between the Group and the intellectual property ("IP") holders, the Group pays non-refundable upfront licensing fees to the IP holders as the Group is entitled to use such IP to develop online mobile games. The Group recognizes the licensing fee as an intangible asset. This intangible asset is amortized on a straight-line basis upon the commercial launch of the related online mobile games over the shorter of the expected economic life or license period of the relevant online mobile games ranging from two to ten years.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Intangible assets *(Continued)*

#### **(c) Trademark and domain names**

Trademark and domain names are initially recognized and measured at costs incurred to acquire and bring to use them. The costs are amortized on a straight-line basis over the trademark and domain names' estimated useful lives of five to ten years and recorded in amortization within operating expenses in the consolidated statement of profit or loss. Length of estimated useful life is determined to be the period of effective registration during which such trademark and domain names can bring economic benefits to the Group.

### 2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment are reviewed 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 flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.9 Investments and other financial assets

#### **(i) Classification**

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

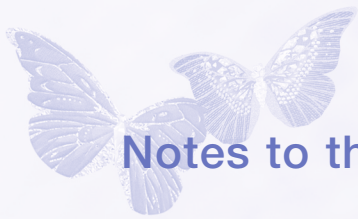
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

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 OCI. 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 FVOCI.

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





# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Investments and other financial assets *(Continued)*

#### **(ii) 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.

#### **(iii) 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 ("FVPL"), 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 recognised directly in profit or loss and presented in "other gains/(losses), net", together with foreign exchange gains and losses. Impairment losses are presented in administrative expenses in the statement of profit or loss.
- **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 gains/(losses), net". 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 gains/(losses), net", and impairment expenses are presented in "administrative expenses" in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other gains/(losses), net" in the period in which it arises.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Investments and other financial assets *(Continued)*

#### *(iii) 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 as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other gains/(losses), net" in the statements of 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.

#### *(iv) Impairment*

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on 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 recognised from initial recognition of the receivables, see Note 3.1 for further details.

### 2.10 Offsetting financial instruments

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

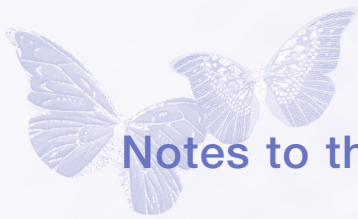
### 2.11 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in "other gains/(losses), net".

### 2.12 Trade and other receivables

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



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.12 Trade and other receivables *(Continued)*

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 19 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

### 2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.14 Share capital

Ordinary shares are classified as equity.

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

### 2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

### 2.16 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.16 Borrowings and borrowing costs *(Continued)*

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### 2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of profit or loss, except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

#### **(a) 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.

#### **(b) Deferred income tax**

Deferred income tax is provided in full, 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 recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Current and deferred income tax *(Continued)*

#### **(b) Deferred income tax** *(Continued)*

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

### 2.18 Employee benefits

#### **(a) 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. There were no forfeited contributions (by employees on behalf of employees who leave the plans prior to vesting fully in such contributions) to offset existing contributions under the defined contribution plans.

#### **(b) 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.

#### **(c) Bonus plans**

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

### 2.19 Equity-settled share-based payments arrangements

Share-based payments arrangement represents the Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments (such as restricted share or options) is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Equity-settled share-based payments arrangements *(Continued)*

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

In addition, in some circumstance employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

In case it is an option arrangement, when the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

### 2.20 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.

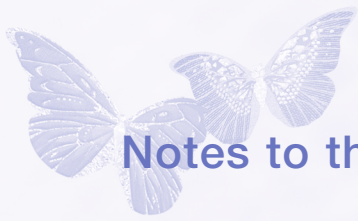
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is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

### 2.21 Revenue recognition

The Group evaluated and recognized revenue based on a five-step approach:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to each performance obligation
- Recognize revenue when each performance obligation is satisfied

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided, stated net of discounts, returns and value added taxes. Revenue is recognized when or as the control of the goods or services is transferred to the 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.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Revenue recognition *(Continued)*

#### **(a) Online game revenue**

The Group is a mobile game developer and also a publisher. The Group's online game revenue are generated primarily from its integrated game publishing and operation business, i.e. game publishing by the Group's own distribution channels or other distribution channels, and from its development and licensing business.

The Group's online games 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 tokens, which entitle the game players to exchange for in-game virtual items, including those consumable and durable virtual items.

The Group reports revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. The Group is a principal if it controls the specified product or service before that product or service is transferred to a customer or it has a right to direct others to provide the product or service to the customer on the Group's behalf. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

#### The Group acts as an agent

##### *(i) Revenue from development and licensing*

The Group derives revenue from licensing its self-developed games to third-party game publishers ("Publishers"), who operate the Group's online 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.

The Group has evaluated the respective roles and responsibilities of the Group and the Publishers in the delivery of game experience to players and concluded that the 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 by the Publishers from players, are recognized as revenue on a net basis when the sales occur. The non-refundable fixed licensing fees are initially recorded in contract liability and are then recognized as revenue rateably over the license period as they are considered to be right-to-access arrangements.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Revenue recognition *(Continued)*

#### **(a) Online game revenue** *(Continued)*

The Group acts as a principal

##### *(ii) Revenue from integrated game publishing and operation*

The Group also operates its self-developed games through its own distribution channels, or other distribution channels, including various mobile application stores and software website (collectively referred to as “Distribution Channels”). The Group sells the in-game tokens to its game players via payment channels and Distribution Channels. Therefore, the payment channels and Distribution Channels are entitled to commissions which are withheld and deducted from the gross proceeds collected from the game players, with the net amounts remitted to the Group.

The Group takes primary responsibilities of game development and updates, price determination of in-game virtual items, game operation, including providing customer services, hosting game servers. The Group considered itself as a principal in this arrangement and records the online game revenue on a gross basis. Commissions paid to Distribution Channels and payment channels are recorded as cost of revenue.

Upon the sales of in-game virtual items, the Group typically has an implied obligation to provide the service which enables the in-game virtual items to be displayed and consumed in the respective games. As a result, the proceeds from the sales of in-game virtual items are initially recorded in contract liability and are then recognised as revenue subsequently only when the services have been rendered either upon consumption or ratably over the average playing period of Paying Players (“Player Relationship Period”). For the purposes of determining when services have been rendered to the respective Paying Players, the Group has determined the following:

- Consumable items represent in-game virtual items that can be consumed by game player actions or expire over a predetermined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. Revenue in relation to consumable items are recognized (as a release from contract liability) after they are consumed or over the period that they are expiring, as the Group’s obligations in connection with such items have been fully rendered to the players after their consumption or expiration.
- Durable items represent in-game virtual items that are accessible by the players as long as they play the game. The Group will provide continuous services in connection with these durable items until these items are no longer used by the game players. Revenues in relation to the durable items are recognized over Player Relationship Period, which represents the best estimates of the average lifespan of durable virtual items for the applicable game.





# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Revenue recognition *(Continued)*

#### **(a) Online game revenue** *(Continued)*

The Group acts as a principal *(Continued)*

#### *(ii) Revenue from integrated game publishing and operation* *(Continued)*

The Group estimates the Player Relationship Period and re-assesses such periods semi-annually. 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 until the new game establishes its own patterns and history. The Group also considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period. Adjustments arising from changes in the estimated useful lives of durable virtual items are applied prospectively.

#### **(b) Contract liabilities and contract costs**

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities mainly comprise of revenue share received in advance from customers, the unamortized revenue from sales of in-game virtual items for online games and the non-refundable fixed licensing fee paid by licensees, where there is still an implied obligation to be provided by the Group and will be recognized as revenue when all of the revenue recognition criteria are met.

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over the period that they are expiring or their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

### 2.22 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss. 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).

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 Research and development costs

The expenditure on an internal research and development project is classified into research cost and development cost based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Research cost is recognized in profit or loss in the period in which it is incurred. Development cost is capitalize only if all of the following conditions are satisfied:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset, and use or sell it;
- There is ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate economic benefits;
- There are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The expenditure attributable to the intangible asset during its development phase can be reliably measured.

The development cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The development costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over their estimated useful lives.

Development costs not satisfying the above criteria are recognized in the profit or loss as incurred.

Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

During the years ended 31 December 2022 and 2021, the Group did not capitalize any development costs.

### 2.24 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.



# Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.25 Leases

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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

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, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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 in 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:

- where possible, 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
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Tianjin Loong, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

# Notes to the Consolidated Financial Statements



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.25 Leases *(Continued)*

Lease payments are allocated between principal 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.

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of properties are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### 2.26 Dividend 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.



# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and 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.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group operates internationally through overseas publishers and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the RMB and US\$. Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of the Group's subsidiaries. The Group does not hedge against any fluctuation in foreign currency.

The carrying amount in RMB equivalents of the mainly financial assets and liabilities held by the Group denominated in the currencies other than their respective functional currencies are summarised below:

	As at 31 December							
	2022				2021			
	US\$ RMB'000	HK\$ RMB'000	RMB RMB'000	JPY RMB'000	US\$ RMB'000	HK\$ RMB'000	RMB RMB'000	JPY RMB'000
Cash	62,263	29,723	120,849	604	152,681	13,462	-	-
Trade receivables	602	6,112	-	-	1,397	8,283	-	-
Restricted cash	25,906	-	-	-	27,483	-	-	-
Trade payables	(152)	-	(776)	(17,059)	-	-	-	-
	<u>88,619</u>	<u>35,835</u>	<u>120,073</u>	<u>(16,455)</u>	<u>181,561</u>	<u>21,745</u>	<u>-</u>	<u>-</u>

If foreign currencies had strengthened/weakened by 5% against RMB with all other variables held constant, the loss for the year would have been approximately RMB1,170,000 higher/lower and RMB9,043,000 lower/higher for the years ended 31 December 2022 and 2021, respectively, as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in currencies other than RMB.

# Notes to the Consolidated Financial Statements



## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### **(a) Market risk** *(Continued)*

##### *(ii) Price risk*

The Group is exposed to price risk in respect of investments held by the Group that are classified on the consolidated balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The sensitivity analysis is determined based on the exposure to price risk of financial assets at fair value through profit or loss at the end of the reporting period. If the fair values of the respective instruments held by the Group had been 1% higher/lower, the loss for the years ended 31 December 2022 and 2021 would have been approximately RMB6,490,000 lower/higher, and RMB5,773,000 lower/higher, respectively.

##### *(iii) Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets and liabilities other than cash and cash equivalents, term deposits and other financial assets at amortized cost, the Group's income and cash flows are substantially independent of changes in market interest rates.

#### **(b) Credit risk**

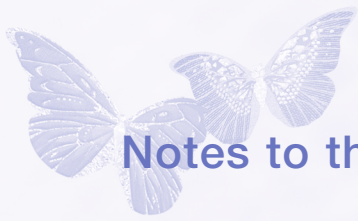
Credit risk arises from cash and cash equivalents, term deposits and other financial assets at amortized cost placed with banks, trade receivables and other receivables. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

##### *(i) Risk management*

Credit risk is managed on group basis. Finance team is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group assesses the credit quality of its customers and other debtors by taking into account various factors including their financial position, past experience and other factors.

Cash and cash equivalents, term deposits and other financial assets at amortized cost, are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

The Group is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.



# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### **(b) Credit risk** *(Continued)*

##### *(ii) Impairment of financial assets*

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables; and
- other receivables.

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

##### Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and credit rating.

The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institution, 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 Gross Domestic Product ("GDP") and Customer Price Index ("CPI") of the countries in which it provides its services 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



## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### **(b) Credit risk** *(Continued)*

##### *(ii) Impairment of financial assets (Continued)*

##### Trade receivables *(Continued)*

On that basis, the loss allowances as at 31 December 2022 and 2021 were determined as follows:

<b>Credit rating as at 31 December 2022</b>	<b>Expected credit loss rate</b>	<b>Gross carrying amount at default</b>	<b>Allowance for impairment of trade receivables</b>
AAA	0.14%	82,468	(117)
A+	0.72%	1,108	(8)
A	0.85%	9,935	(84)
A-	1.11%	540	(6)
B-	5.77%	39,807	(2,295)
		<b>133,858</b>	<b>(2,510)</b>

<b>Credit rating as at 31 December 2021</b>	<b>Expected credit loss rate</b>	<b>Gross carrying amount at default</b>	<b>Allowance for impairment of trade receivables</b>
AAA	0.12%	108,564	(130)
A+	0.71%	1,275	(9)
A	0.80%	15,399	(123)
A-	0.88%	341	(3)
B-	6.34%	32,692	(2,072)
		<b>158,271</b>	<b>(2,337)</b>

Loss allowances for trade receivables as at 31 December reconcile to the opening loss allowances as disclosed in Note 19.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and indicators of severe financial difficulty.

Impairment losses on trade receivables are presented as “Net (allowance)/reversal for impairment on financial assets” within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.





# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### **(b) Credit risk** *(Continued)*

##### *(ii) Impairment of financial assets (Continued)*

##### Other receivables

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. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In view of the history of cooperation with debtors, the sound collection history of receivables due from them and forward-looking estimates, the expected credit loss is minimal.

#### **(c) Liquidity risk**

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

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<b>Less than 1 year RMB'000</b>	<b>Between 1 and 2 years RMB'000</b>	<b>Between 2 and 5 years RMB'000</b>	<b>Over 5 years RMB'000</b>	<b>Total contractual cash flows RMB'000</b>
<b>Group</b>					
<b>At 31 December 2022</b>					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 28)	76,346	-	-	-	76,346
Lease liabilities	43,973	44,227	20,977	-	109,177
	<u>120,319</u>	<u>44,227</u>	<u>20,977</u>	<u>-</u>	<u>185,523</u>
<b>At 31 December 2021</b>					
Trade and other payables (excluding payroll liabilities and tax payables) (Note 28)	50,149	-	-	-	50,149
Lease liabilities	42,783	42,549	62,412	-	147,744
	<u>92,932</u>	<u>42,549</u>	<u>62,412</u>	<u>-</u>	<u>197,893</u>

# Notes to the Consolidated Financial Statements



## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(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 consider 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 capital risk is low.

### 3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at 31 December 2022 and 2021 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at 31 December 2022 and 2021, none of the Group's financial liabilities and financial assets are measured at fair value using level 1 or level 2 inputs.



# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.3 Fair value estimation *(Continued)*

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

<b>As at 31 December 2022</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Assets</b>				
<b>Current</b>				
Investments in wealth management products (Note 21)	-	-	151,115	151,115
Other fund investments (Note 21)	-	-	149,439	149,439
Structured investments (Note 21)	-	-	140,107	140,107
	-	-	440,661	440,661
<b>Non-current</b>				
Investments in private equity funds and venture capital funds (Note 21)	-	-	163,435	163,435
Structured investments (Note 21)	-	-	99,299	99,299
Preferred shares investments (Note 21)	-	-	14,349	14,349
Other fund investments (Note 21)	-	-	8,225	8,225
Other ordinary share investments (Note 21)	-	-	3,526	3,526
	-	-	288,834	288,834
	-	-	729,495	729,495

# Notes to the Consolidated Financial Statements



## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.3 Fair value estimation *(Continued)*

As at 31 December 2021	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Assets</b>				
<b>Current</b>				
Investments in wealth management products (Note 21)	–	–	305,398	305,398
Other fund investments (Note 21)	–	–	152,891	152,891
	–	–	458,289	458,289
<b>Non-current</b>				
Investments in private equity funds and venture capital funds (Note 21)	–	–	157,078	157,078
Preferred shares investments (Note 21)	–	–	25,566	25,566
Other fund investments (Note 21)	–	–	10,191	10,191
	–	–	192,835	192,835
	–	–	651,124	651,124

The changes in level 3 instruments of financial assets at fair value through profit or loss for the years ended 31 December 2022 and 2021 have been disclosed in Note 21. There were no transfers among Levels 1, 2 and 3 during the years ended 31 December 2022 and 2021.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The net asset value of the investments;
- The latest round financing, i.e. the prior transaction price or the third-party pricing information;
- Other techniques, such as discounted cash flow analysis and comparable company approach, are used to determine fair value for financial instruments.

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



# Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.3 Fair value estimation *(Continued)*

The components of the level 3 instruments include investments in wealth management products, preferred share investments, other ordinary share investments, investments in private equity funds and venture capital funds, other fund investments, structured investments. As these instruments are not traded in an active market, their fair values have been determined using applicable methodologies.

The following table summarizes the quantitative about the significant unobservable inputs used in level 3 fair value measurement of the investments in wealth management products, preferred share investments, other ordinary share investments, investments in private equity funds and venture capital funds and other fund investments.

Description	Fair value		Significant unobservable inputs	Range of inputs (probability weighted average)		Relationship of unobservable inputs to fair value
	As at 31 December 2022	As at 31 December 2021		As at 31 December 2022	As at 31 December 2021	
	RMB'000	RMB'000				
Wealth management products	151,115	305,398	Expected rate of return	1.49% to 2.89%	2.58% to 4.45%	Increasing/decreasing expected rate of return by 50 basis points would increase/decrease fair value by RMB508,398 and RMB184,226 as at 31 December 2022 and 31 December 2021.
Preferred share investments (a)	14,349	25,566	Expected volatility	48.38%	48.24%	The higher the expected volatility, the lower the fair value.
			Risk-free rate	2.64%	2.58%	The higher the risk-free rate, the lower the fair value.
			Discount for lack of marketability ("DLOM")	30.00%	30.00%	The higher the DLOM, the lower the fair value.
Other ordinary share investments (a)	3,526	-	Expected volatility	43.77%	N/A	The higher the expected volatility, the higher the fair value.
			Risk-free rate	2.21%	N/A	The higher the risk-free rate, the higher the fair value.
Investments in private equity funds and venture capital funds (Note 4(d))	163,435	157,078	N/A	N/A	N/A	N/A
Other fund investments (b)	157,664	163,082	N/A	N/A	N/A	N/A
Structured investments (b)	239,406	-	N/A	N/A	N/A	N/A

# Notes to the Consolidated Financial Statements



## 3 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### 3.3 Fair value estimation *(Continued)*

Note:

- (a) The Group determines the fair values of preferred share investments and other ordinary share investments as at the reporting date based on the valuation using applicable technique.
- (b) Other fund investments and structured investments at fair value through profit or loss as at the reporting date based on the reported net asset values of the respective instruments as provided by fund managers or their issuers.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

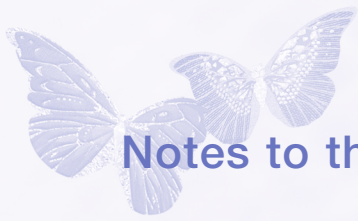
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities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

### (a) Estimates of expected Player Relationship Period in the Group's self-operated online game revenue

As described in Note 2.21, the Group recognizes certain revenue derived from durable in-game virtual items ratably over the lifespan of in-game virtual items with reference to the expected Player Relationship Period, on a game by game basis. 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. These judgements and estimates include (i) the determination of key assumptions applied in the expected Player Relationship Period, including but not limited to the games profile (including the observation of historical paying players' behaviour with reference to their log-in records, churn rates, and games life-cycle), target audience and players of different demographics groups; and (ii) the identification of events that may trigger changes in the expected Player Relationship Period. 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.

### (b) Revenue recognition

Pursuant to online game licensing and operation arrangements signed between the Group and the third-party game publishers or Distribution Channels, the Group's responsibilities in game development and self-developed games operation vary for each game. The Group recognizes revenue on a gross or net basis depending on whether the Group is acting as a principal or an agent in a transaction. Indicators that the Group is a principal include but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.



# Notes to the Consolidated Financial Statements

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

### (c) Fair value of preferred shares and other ordinary share investments

The fair values of preferred shares and other ordinary share investments that are not traded in an active market (for example, investment in private company) are determined by using valuation techniques. The Group uses its judgment 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 investments.

### (d) Fair value of private equity funds and venture capital funds

The fair value of investments in private equity funds and venture capital funds that are not quoted in an active market is primarily valued based on the latest available consolidated financial statements and valuation reports provided by their general partners. The Group reviews the details of the reported information and may make adjustments, if applicable, to the reported net asset value based on considerations such as:

- (i) the valuation of private equity funds and venture capital funds underlying investments;
- (ii) the management and incentive fee compensated for investment managers;
- (iii) cash flows (calls/distributions) since the latest value date; and
- (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by fund's general partner.

The models used to determine fair values are validated and periodically reviewed by the Group. The carrying values of the private equity funds and venture capital funds may be significantly different from the values ultimately realised on an exit via a secondary market sale.

### (e) Recognition of share-based compensation expenses

The Group modified the original share options on 7 January 2022. The fair value of the share options before and after the modification date was determined by using binomial pricing model with certain significant estimates on assumptions, including risk-free interest rate, volatility and dividend yield. (Note 26)

### (f) Impairment provision for trade and other receivables

The allowance for impairment of trade and other are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

# Notes to the Consolidated Financial Statements



## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

### (g) 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.

## 5 SEGMENT INFORMATION AND REVENUE

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the directors of the Company consider that the Group's operations are operated and managed as a single segment and no segment information is presented, accordingly.

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

Revenue for the years ended 31 December 2022 and 2021 are as follows: the Group considered itself as an agent in arrangements of "development and licensing business", and recorded revenue on a net basis; whereas, the Group considered itself as a principal in arrangements of "integrated game publishing and operation business", and recorded revenue on a gross basis.

	<b>Year ended 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Online game revenue		
– Development and licensing		
<i>Revenue share</i>	<b>215,314</b>	444,878
<i>Non-refundable fixed licensing fees</i>	<b>23,139</b>	27,519
– Integrated game publishing and operation	<b>345,368</b>	448,430
– Others	<b>300</b>	–
	<b>584,121</b>	920,827
Timing of revenue recognition		
– At a point in time	<b>215,614</b>	444,878
– Over time	<b>368,507</b>	475,949
	<b>584,121</b>	920,827





# Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION AND REVENUE *(Continued)*

Revenues of approximately RMB238,022,000 and RMB471,760,000 for the years ended 31 December 2022 and 2021, respectively were derived from five largest single external customers.

During the year ended 31 December 2022, revenue of approximately RMB170,421,000 was derived from a single external customer accounted for more than 10% of total revenue (2021: RMB397,785,000).

The amount of its revenue from external customers broken down by location of the customers is shown in the table below.

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Revenue segment by geography</b>		
Mainland China	179,352	385,221
Overseas	404,769	535,606
	<b>584,121</b>	920,827

The Group has recognized the following assets and liabilities related to contracts with customers:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Contract costs</b>		
<b>Current</b>		
Costs to fulfil contracts for online game revenue	17,060	16,099
<b>Contract liabilities</b>		
<b>Current</b>		
Unamortised revenue from sales of in-game virtual items	47,598	45,553
Revenue share received in advance	1,816	1,790
Unamortised balance of the non-refundable fixed licensing fees	15,022	14,866
	<b>64,436</b>	62,209
<b>Non-Current</b>		
Unamortised balance of the non-refundable fixed licensing fees	28,595	10,513
	<b>93,031</b>	72,722

# Notes to the Consolidated Financial Statements



## 5 SEGMENT INFORMATION AND REVENUE (Continued)

Contract costs are mainly related to contract fulfilment costs, which primarily consist of unamortized commissions charged by the Distribution Channels. They are capitalized as contract fulfilment costs and amortized over their respective Player Relationship Periods, which is consistent with the pattern of recognition of the associated revenue.

Contract liabilities primarily represented the unamortized revenue from sales of in-game virtual items in the Group's online game services, the non-refundable fixed licensing fees and revenue share received in advance from customers, which the Group continued to have obligations as at the reporting date.

### Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the year</i>		
Unamortised revenue from sales of in-game virtual items	<b>45,553</b>	40,791
Revenue share received in advance	<b>1,790</b>	831
Unamortised balance of the non-refundable fixed licensing fees	<b>14,866</b>	20,214
	<b>62,209</b>	61,836



# Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION AND REVENUE *(Continued)*

### Unsatisfied long-term online game licensing contracts

The following table shows unsatisfied performance obligations resulting from the transaction price allocated to long-term online game licensing arrangement.

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Aggregate amount of the transaction price allocated to long-term online game licensing arrangements that are partially or fully unsatisfied as at year end	<b>43,617</b>	25,379

Management expects that RMB15,022,000, RMB16,432,000, RMB11,583,000 and RMB580,000 of the transaction price allocated to the unsatisfied contracts as of 31 December 2022 will be recognised as revenue in 2023, 2024, 2025 and 2026 financial year.

The amount disclosed above does not include variable consideration which is constrained.

All other online game licensing arrangements are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 6 OTHER INCOME

	<b>Year ended 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Government grants	<b>3,916</b>	6,722

Government grants received by certain subsidiaries were mainly related to their local development. Those grants are not stipulated with any specified uses, nor unfulfilled conditions or contingencies.

# Notes to the Consolidated Financial Statements



## 7 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
(Losses)/gains on financial assets at fair value through profit or loss	<b>(27,223)</b>	25,055
Losses on financial liabilities at fair value through profit or loss	<b>(20,923)</b>	–
Foreign exchange (losses)/gains, net	<b>(16,332)</b>	11,182
Others	<b>820</b>	1,895
	<b>(63,658)</b>	38,132

## 8 EXPENSES BY NATURE

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Employee benefit expenses (Note 9)	<b>730,874</b>	644,833
Promotion and advertising expenses	<b>183,000</b>	192,536
Outsourced technical services	<b>113,703</b>	115,266
Commissions charged by Distribution Channels and payment channels	<b>106,499</b>	132,492
Depreciation and amortization charges (Note 15, 16, 17)	<b>64,480</b>	59,459
Utilities and office expenses	<b>26,711</b>	24,510
Revenue share to the IP holders	<b>19,925</b>	37,289
Bandwidth and servers custody fee	<b>16,241</b>	15,975
VAT input transfer out and tax surcharges	<b>8,366</b>	7,490
Other professional consulting fees	<b>8,322</b>	10,890
Travelling expenses	<b>5,013</b>	5,962
Auditors' remuneration	<b>3,823</b>	4,000
– Audit services	<b>3,800</b>	4,000
– Non-audit services	<b>23</b>	–
Allowance/(reversal) for impairment on financial assets (Note 19)	<b>173</b>	(2,930)
Others	<b>8,686</b>	7,336
	<b>1,295,816</b>	1,255,108



# Notes to the Consolidated Financial Statements

## 9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Wages, salaries and bonuses	552,443	448,257
Other social security costs, housing benefits and other employee benefits	86,856	83,371
Pension costs – defined contribution plans	54,933	47,622
Share-based compensation (Note 26)	36,642	65,583
	<b>730,874</b>	<b>644,833</b>

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2022 and 2021 include 2 directors whose emoluments are reflected in analysis shown in note (b) below. The emoluments payable to the remaining 3 individuals for each of the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Basic salaries	9,561	4,743
Bonuses	1,600	925
Other social security costs and housing benefits	269	265
Pension costs – defined contribution plans	197	187
	<b>11,627</b>	<b>6,120</b>

The emoluments fell within the following bands:

Emolument bands (in HK\$)	Number of individuals	
	Year ended 31 December	
	2022	2021
HK\$1,000,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$3,000,000	–	3
HK\$3,000,001 – HK\$4,000,000	–	–
HK\$4,000,001 – HK\$5,000,000	2	–
HK\$5,000,001 – HK\$6,000,000	1	–
	<b>3</b>	<b>3</b>

# Notes to the Consolidated Financial Statements



## 9 EMPLOYEE BENEFIT EXPENSES (Continued)

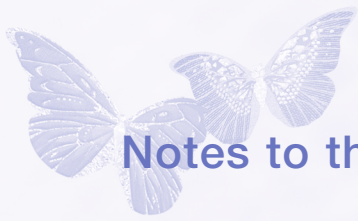
### (a) Five highest paid individuals (Continued)

For the year ended 31 December 2022, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2021: nil).

### (b) Benefits and interests of directors

The remuneration of each director for the year ended 31 December 2022 is set out as below:

Name	Fee RMB'000	Salary RMB'000	Bonuses RMB'000	Pension costs – defined contribution cost RMB'000	Other social security costs and housing benefits and other employee benefits RMB'000	Total RMB'000
<b>Executive directors</b>						
Li Qing	-	7,206	1,190	58	81	8,535
Bai Wei	-	3,606	600	69	94	4,369
<b>Non-executive directors</b>						
Liu Ming	-	-	-	-	-	-
Lu Xiaoyin	-	-	-	-	-	-
<b>Independent non-executive directors</b>						
Bai Kun (i)	100	-	-	-	-	100
Zhu Lin (ii)	100	-	-	-	-	100
Ding Zhiping (ii)	100	-	-	-	-	100
	<u>300</u>	<u>10,812</u>	<u>1,790</u>	<u>127</u>	<u>175</u>	<u>13,204</u>



# Notes to the Consolidated Financial Statements

## 9 EMPLOYEE BENEFIT EXPENSES (Continued)

### (b) Benefits and interests of directors (Continued)

The remuneration of each director for the year ended 31 December 2021 is set out as below:

Name	Fee RMB'000	Salary RMB'000	Bonuses RMB'000	Pension costs – defined contribution cost RMB'000	Other social security costs and housing benefits and other employee benefits RMB'000	Total RMB'000
<b>Executive directors</b>						
Li Qing	–	3,041	474	53	77	3,645
Bai Wei	–	1,773	300	63	88	2,224
<b>Non-executive directors</b>						
Liu Ming	–	–	–	–	–	–
Lu Xiaoyin	–	–	–	–	–	–
<b>Independent non-executive directors</b>						
Bai Kun (i)	30	–	–	–	–	30
Ge Xuan (iii)	70	–	–	–	–	70
Zhu Lin (ii)	100	–	–	–	–	100
Ding Zhiping (ii)	100	–	–	–	–	100
	<u>300</u>	<u>4,814</u>	<u>774</u>	<u>116</u>	<u>165</u>	<u>6,169</u>

(i) Appointed on 24 September 2021 and reelected on 17 June 2022;

(ii) Reelected on 17 June 2022;

(iii) Appointed on 24 June 2020; Resigned on 24 September 2021.

During the year, there are no retirement or termination benefits have been paid to the Company's directors (2021: nil).

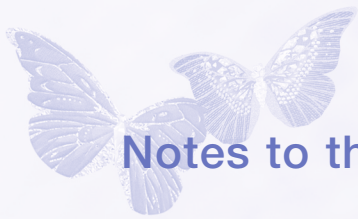
For the year ended 31 December 2022, no emoluments were paid by the Group to any of the Company's directors as an inducement to join or upon joining the Group or as compensation for loss of office (2021: nil).

During the year, there is no loans, quasi-loans and other dealing arrangement in favour of directors, or controlled body corporates and connected entities of such director.

No significant transactions, arrangements and contracts in relation to the Group's business in 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 the year or at any time during the year (2021: nil).







# Notes to the Consolidated Financial Statements

## 11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

As at 31 December 2022, the Group invested in two associates. In the opinion of the directors of the Company, neither of the associates is material to the Group.

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	<b>78,087</b>	61,524
Aggregate amounts of the Group's share of:		
Losses from continuing operations	<b>(13,437)</b>	(9,950)
Total comprehensive losses	<b>(13,437)</b>	(9,950)

## 12 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current income tax expense	<b>1,296</b>	509
Deferred income tax	<b>(537)</b>	15,061
	<b>759</b>	15,570

### (a) Cayman Islands and BVI Income Tax

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

### (b) Hong Kong Income Tax

The entity incorporated in Hong Kong is subject to Hong Kong profit tax at rate of 16.5% on the assessable profits for the years ended 31 December 2022 and 2021, based on the existing legislation, interpretations and practices in respect thereof.

# Notes to the Consolidated Financial Statements



## 12 INCOME TAX EXPENSE *(Continued)*

### (c) PRC Enterprise Income Tax (“EIT”)

The income tax provision of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the years ended 31 December 2022 and 2021, based on the existing legislation, interpretations and practices in respect thereof.

Tianjin Loong renewed its qualification as a “High and New Technology Enterprise” (“HNTE”) in 2020 and it is subject to a reduced preferential EIT rate of 15% for a three-year period from 2020 to 2022 according to the preferential tax treatment applicable to the HNTE.

Huai’an Loong Technology Co., Ltd. (“Huai’an Loong”) qualified as a HNTE for a three-year period since 2018 and renewed its qualification in 2021 for another three-year period. Huai’an Loong is entitled to a preferential EIT rate of 15% on its assessable profits for a three-year period from 2021 to 2023.

Beijing Fantasy Mermaid Technology Limited renewed its qualification as a HNTE in 2019 and it was subject to a reduced preferential EIT rate of 15% for a three-year period from 2019 to 2022. The qualification expired in December 2022. Therefore, the entity renewed its qualification in December 2022 for another three-year period. Beijing Fantasy Mermaid is entitled to a preferential EIT rate of 15% on its assessable profits for a three-year period from 2022 to 2025.

Chengdu Fantasy Mermaid Technology Limited was established in Chengdu in December 2019, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

Beihai Loong Venture Capital Co., Ltd. was established in Beihai in June 2021, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

Beihai Longhao Venture Capital Co., Ltd. was established in Beihai in January 2022, as it met the requirements of the revised catalogue of industries whose development is to be encouraged in the country’s western regions, which will allow EIT to be levied at a reduced rate of 15% for eligible enterprises.

The State Taxation Administration of the PRC in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses (“Super Deduction”) from 1 January 2018 to 31 December 2020, and announced in March 2021 to extend this preferential claim percentage to 31 December 2023. As announced in September 2022, enterprises which are entitled to claim 175% of their research and development expenses would be entitled to claim 200% of their research and development expenses from 1 October 2022 to 31 December 2022. 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 year.



# Notes to the Consolidated Financial Statements

## 12 INCOME TAX EXPENSE *(Continued)*

### (c) PRC Enterprise Income Tax (“EIT”) *(Continued)*

The tax on the Group’s loss before tax differs from the theoretical amount that would arise using the PRC statutory income tax rate as follows:

	Year ended 31 December	
	2022 RMB’000	2021 RMB’000
<b>Loss before income tax</b>	<b>(767,788)</b>	(287,755)
Tax calculated at PRC statutory income tax rate of 25%	<b>(191,947)</b>	(71,939)
Tax effects of:		
Effects of preferential income tax benefits of certain subsidiaries	<b>56,337</b>	36,632
Effects of different tax rates applicable to different subsidiaries of the Group	<b>11,951</b>	(18,990)
Tax losses for which no deferred income tax asset was recognized	<b>183,306</b>	141,865
Additional deduction for research and development expenses	<b>(70,946)</b>	(73,276)
Expenses not deductible for tax purposes (Note (a))	<b>9,851</b>	10,753
Offshore income not subject to Hong Kong profit tax	<b>–</b>	(10,306)
Others	<b>2,207</b>	831
<b>Income tax expense</b>	<b>759</b>	15,570

Note:

- (a) Expenses not deductible for tax purposes mainly include share-based compensation expense and other expenses that exceed the deduction limitation.

# Notes to the Consolidated Financial Statements



## 13 LOSS PER SHARE

### (a) Basic

Basic loss per share is calculated by dividing the Group's loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years.

	Year ended 31 December	
	2022	2021
Loss attributable to owners of the Company (RMB'000)	<b>(768,547)</b>	(303,325)
Weighted average number of ordinary shares in issue (in thousands)	<b>789,656</b>	789,415
Less: weighted average number of treasury shares (in thousands)	<b>(2,703)</b>	(174)
Weighted average number of issued ordinary shares for calculating basic loss per share	<b>786,953</b>	789,241
Basic loss per share (in RMB/share)	<b>(0.98)</b>	(0.38)

### (b) Diluted

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

For the year ended 31 December 2022 and 2021, the Company has two categories of dilutive potential ordinary shares: the restricted share units ("RSUs") and the Share Options as described in Note 26.

For the purpose of calculating diluted loss per share for the year ended 31 December 2022 and 2021, RSUs and Share Options are assumed to have been converted into ordinary shares with no corresponding change in net loss attributable to ordinary shareholders. This potential adjustment resulted in an anti-dilutive effect in the calculation of diluted loss per share for the year ended 31 December 2022 and 2021.

## 14 DIVIDENDS

No dividend has been declared or paid by the Company for the year ended 31 December 2022 (Dividend amounted to HK\$60,347,740 has been paid in 2021).



# Notes to the Consolidated Financial Statements

## 15 PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Furniture RMB'000	Leasehold improvements RMB'000	Total RMB'000
<b>At 1 January 2021</b>				
Cost	24,230	438	15,312	39,980
Accumulated depreciation	<u>(12,414)</u>	<u>(295)</u>	<u>(8,858)</u>	<u>(21,567)</u>
<b>Net book amount</b>	<u>11,816</u>	<u>143</u>	<u>6,454</u>	<u>18,413</u>
<b>Year ended 31 December 2021</b>				
Opening net book amount	11,816	143	6,454	18,413
Additions	14,900	116	8,333	23,349
Disposals	(30)	–	–	(30)
Depreciation charge	<u>(5,404)</u>	<u>(63)</u>	<u>(2,598)</u>	<u>(8,065)</u>
<b>Closing net book amount</b>	<u>21,282</u>	<u>196</u>	<u>12,189</u>	<u>33,667</u>
<b>At 31 December 2021</b>				
Cost	38,557	554	23,645	62,756
Accumulated depreciation	<u>(17,275)</u>	<u>(358)</u>	<u>(11,456)</u>	<u>(29,089)</u>
<b>Net book amount</b>	<u>21,282</u>	<u>196</u>	<u>12,189</u>	<u>33,667</u>
<b>Year ended 31 December 2022</b>				
Opening net book amount	<b>21,282</b>	<b>196</b>	<b>12,189</b>	<b>33,667</b>
Additions	<b>5,130</b>	<b>54</b>	<b>1,988</b>	<b>7,172</b>
Disposals	<b>(97)</b>	<b>–</b>	<b>–</b>	<b>(97)</b>
Depreciation charge	<u><b>(7,338)</b></u>	<u><b>(59)</b></u>	<u><b>(4,037)</b></u>	<u><b>(11,434)</b></u>
<b>Closing net book amount</b>	<u><b>18,977</b></u>	<u><b>191</b></u>	<u><b>10,140</b></u>	<u><b>29,308</b></u>
<b>At 31 December 2022</b>				
Cost	<b>41,889</b>	<b>608</b>	<b>25,633</b>	<b>68,130</b>
Accumulated depreciation	<u><b>(22,912)</b></u>	<u><b>(417)</b></u>	<u><b>(15,493)</b></u>	<u><b>(38,822)</b></u>
<b>Net book amount</b>	<u><b>18,977</b></u>	<u><b>191</b></u>	<u><b>10,140</b></u>	<u><b>29,308</b></u>

# Notes to the Consolidated Financial Statements



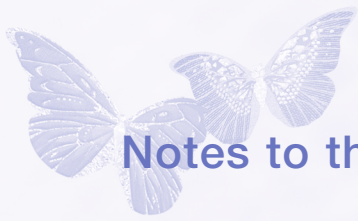
## 15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	<b>Year ended 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Cost of revenue	<b>720</b>	496
Research and development expenses	<b>7,990</b>	6,208
Selling and marketing expenses	<b>1,292</b>	539
Administrative expenses	<b>1,432</b>	822
	<b>11,434</b>	8,065

## 16 INTANGIBLE ASSETS

	Software RMB'000	Copyrights and game licenses RMB'000	Trademark and domain names RMB'000	Total RMB'000
<b>At 1 January 2021</b>				
Cost	35,284	40,699	274	76,257
Accumulated amortisation	(15,794)	(22,286)	(187)	(38,267)
<b>Net book amount</b>	<b>19,490</b>	<b>18,413</b>	<b>87</b>	<b>37,990</b>
<b>Year ended 31 December 2021</b>				
Opening net book amount	19,490	18,413	87	37,990
Additions	27,845	67,480	–	95,325
Disposals	–	(5,975)	–	(5,975)
Amortisation charge	(7,624)	(6,055)	(20)	(13,699)
Currency translation differences	(302)	–	–	(302)
<b>Closing net book amount</b>	<b>39,409</b>	<b>73,863</b>	<b>67</b>	<b>113,339</b>
<b>At 31 December 2021</b>				
Cost	62,828	89,311	274	152,413
Accumulated amortisation	(23,419)	(15,448)	(207)	(39,074)
<b>Net book amount</b>	<b>39,409</b>	<b>73,863</b>	<b>67</b>	<b>113,339</b>



# Notes to the Consolidated Financial Statements

## 16 INTANGIBLE ASSETS (Continued)

	Software RMB'000	Copyrights and game licenses RMB'000	Trademark and domain names RMB'000	Total RMB'000
<b>Year ended 31 December 2022</b>				
Opening net book amount	39,409	73,863	67	113,339
Additions	2,890	23,245	-	26,135
Disposals	-	-	-	-
Amortisation charge	(8,136)	(5,917)	(18)	(14,071)
Currency translation differences	2,914	-	-	2,914
<b>Closing net book amount</b>	<b>37,077</b>	<b>91,191</b>	<b>49</b>	<b>128,317</b>
<b>At 31 December 2022</b>				
Cost	69,282	112,556	274	182,112
Accumulated amortisation	(32,205)	(21,365)	(225)	(53,795)
<b>Net book amount</b>	<b>37,077</b>	<b>91,191</b>	<b>49</b>	<b>128,317</b>

Amortization charges were expensed in the following categories in the consolidated statement of profit or loss:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Cost of revenue	389	5,620
Research and development expenses	12,983	7,182
Administrative expenses	699	897
	<b>14,071</b>	<b>13,699</b>

# Notes to the Consolidated Financial Statements



## 17 LEASES

### (a) Amounts recognised in the consolidated balance sheet

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Right-of-use assets</b>		
Properties	99,984	133,912
Vehicles	359	613
	<b>100,343</b>	134,525
<b>Lease liabilities</b>		
Current	39,923	37,099
Non-current	62,797	98,780
	<b>102,720</b>	135,879

Additions to the right-of-use assets during the years ended 31 December 2022 and 2021 were RMB4,793,000 and RMB5,477,000, respectively.





# Notes to the Consolidated Financial Statements

## 17 LEASES (Continued)

### (b) Amounts recognised in the consolidated statement of profit or loss

The statement of profit or loss show the following amounts relating to leases:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
<b>Depreciation charge of right-of-use assets</b>		
Properties	<b>38,722</b>	37,442
Vehicles	<b>253</b>	253
	<b>38,975</b>	37,695
<b>Year ended 31 December</b>		
	<b>2022</b>	2021
	RMB'000	RMB'000
Interest expenses (included in finance costs)	<b>5,832</b>	7,369
Expense relating to short-term leases (included in cost of revenue, research and development expenses, selling and marketing expenses and administrative expenses)	<b>2,563</b>	1,156
	<b>8,395</b>	8,525

The total cash outflow for leases in the years ended 31 December 2022 and 2021 was RMB43,783,000 and RMB41,811,000, respectively.

### (c) The Group's leasing activities and how these are accounted for

The Group leases various offices and vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (d) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

### (d) Extension options

Extension options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the respective lessor.

# Notes to the Consolidated Financial Statements



## 18 FINANCIAL INSTRUMENTS BY CATEGORY

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Assets as per balance sheet</b>		
Financial assets at fair value through profit or loss (Note 21)	<b>729,495</b>	651,124
Financial assets at amortised cost		
– Trade receivables (Note 19)	<b>131,348</b>	155,934
– Deposits and other receivables	<b>25,704</b>	37,096
– Cash and cash equivalents (Note 23(a))	<b>1,232,999</b>	1,672,338
– Term deposits (Note 23(b))	<b>354,846</b>	574,132
– Restricted cash (Note 23(c))	<b>25,906</b>	35,771
– Structured investments (Note 22)	<b>34,830</b>	–
	<b>2,535,128</b>	3,126,395
<b>Liabilities as per balance sheet</b>		
Financial liabilities at amortized cost		
– Trade and other payables (excluding payroll liabilities and tax payables) (Note 28)	<b>76,346</b>	50,149
– Lease liabilities (Note 17)	<b>102,720</b>	135,879
	<b>179,066</b>	186,028

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

## 19 TRADE RECEIVABLES

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Trade receivables	<b>133,858</b>	158,271
Less: allowance for impairment of trade receivables	<b>(2,510)</b>	(2,337)
Trade receivables – net	<b>131,348</b>	155,934



# Notes to the Consolidated Financial Statements

## 19 TRADE RECEIVABLES (Continued)

The following table sets forth the gross carrying amount of trade receivables by customer types:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Related parties (Note 31(c))	63,193	88,104
Third parties	70,665	70,167
	<b>133,858</b>	158,271

The gross carrying amount of the Group's trade receivables is dominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
US\$	65,926	71,000
RMB	61,366	78,988
HK\$	6,112	8,283
Others	454	–
	<b>133,858</b>	158,271

The Group allows a credit period of 90 – 150 days to its customers. An aging analysis of trade receivables based on revenue recognition date is as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Up to 3 months	76,670	91,145
3 to 6 months	33,706	37,849
6 months to 1 year	21,158	27,853
Over 1 year	2,324	1,424
	<b>133,858</b>	158,271

# Notes to the Consolidated Financial Statements



## 19 TRADE RECEIVABLES (Continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
At beginning of the year	(2,337)	(5,267)
Provision for impairment	(217)	(5)
Reversal of impairment	44	2,935
At end of the year	(2,510)	(2,337)

The creation and release of provision for impaired receivables have been included in "Net (allowance)/reversal for impairment on financial assets" in the consolidated statement of profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables. The Group does not hold any collateral as security.

## 20 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Included in non-current assets</b>		
Rental deposits	11,570	11,486
Prepaid revenue share to IP holders (Note (a))	–	3,092
Others	4,199	4,219
	<b>15,769</b>	<b>18,797</b>
<b>Included in current assets</b>		
Prepayments to a stock broker for share repurchase	26,247	4,336
Recoverable value-added tax	23,814	25,483
Contract fulfilment costs	17,060	16,099
Interest receivable	5,423	4,273
Prepaid revenue share to IP holders (Note (a))	3,092	83
Rental deposits	1,494	513
Prepaid advertising expenses	342	2,106
Others	12,683	12,264
	<b>90,155</b>	<b>65,157</b>

Note:

- (a) Prepaid revenue share to IP holders will be amortized to cost when the gross billings generated from games meet the pre-agreed threshold.



# Notes to the Consolidated Financial Statements

## 21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Current</b>		
Wealth management products (Note (a))	151,115	305,398
Other fund investments (Note (b))	149,439	152,891
Structured investments (Note (c))	140,107	–
	<b>440,661</b>	<b>458,289</b>
<b>Non-current</b>		
Investments in private equity funds and venture capital funds (Note (d))	163,435	157,078
Structured investments (Note (c))	99,299	–
Preferred shares investments (Note (e))	14,349	25,566
Other fund investments (Note (b))	8,225	10,191
Other ordinary share investments (Note (f))	3,526	–
	<b>288,834</b>	<b>192,835</b>
	<b>729,495</b>	<b>651,124</b>

Movements in financial assets at fair value through profit or loss during the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
At beginning of the year	651,124	206,039
Addition-wealth management products	1,205,916	929,800
Addition-structured investments	388,969	–
Addition-preferred shares investments	4,000	25,517
Addition-investments in private equity funds and venture capital funds	5,500	135,925
Addition-other ordinary share investments	125	–
Addition-other fund investments	–	169,393
Disposal	(1,498,916)	(840,605)
Changes in fair value	(27,223)	25,055
At end of the year	<b>729,495</b>	<b>651,124</b>
Net unrealized (losses)/gains recognized in the consolidated statement of profit or loss included in the above balance	<b>(34,603)</b>	13,725

# Notes to the Consolidated Financial Statements



## 21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

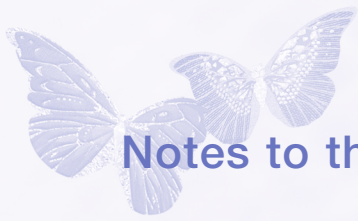
Note:

- (a) The Group purchased certain wealth management products issued by certain major commercial banks in the PRC. The Group has classified its investments in such wealth management products as financial assets at fair value through profit or loss. Fair values of these investments were estimated based on expected return of each wealth management products held by the Group.
- (b) Other fund investments represent the Group's investment in various securities funds, which were offered by several international financial institutions.
- (c) The Group purchased structured investments issued by several PRC and international financial institutions. The returns on all of these investments are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.
- (d) Investments in private equity funds and venture capital funds represent the Group's investment in certain venture funds as a limited partner. As the Group didn't have control or significant influence on these funds, the investments were classified as financial assets at fair value through profit or loss. These funds were established to obtain capital appreciation and investment income.
- (e) Preferred shares investments on unlisted companies represent the Group's investment in ordinary shares with preferential rights to require and demand the investee to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.
- (f) Other ordinary share investments on unlisted companies represent the Group's investment in ordinary shares without preferential rights. As the Group didn't have control or significant influence on these companies, the investments were classified as financial assets at fair value through profit or loss.

## 22 OTHER FINANCIAL ASSETS AT AMORTIZED COST

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Structured investments	<b>34,830</b>	–

Other financial assets at amortized cost are structured investments, denominated in US\$, with guaranteed returns ranging from 3.85% to 5.00% per annum for the year ended 31 December 2022. The investments are held for collection of contractual cash flows and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.



# Notes to the Consolidated Financial Statements

## 23 BANK BALANCES AND CASH

### (a) Cash and cash equivalents

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Cash at bank and on hand	<u>1,232,999</u>	<u>1,672,338</u>

Cash and cash equivalents are dominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
RMB	584,168	359,332
US\$	615,390	1,297,431
HK\$	30,356	14,277
Others	<u>3,085</u>	<u>1,298</u>
	<u>1,232,999</u>	<u>1,672,338</u>

The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

### (b) Term deposits

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
<b>Current</b>		
Term deposits with initial term over three months	<u>354,846</u>	<u>574,132</u>

Term deposits are dominated in the following currency:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
US\$	<u>354,846</u>	<u>574,132</u>

The interest rates on term deposits with the maturity over three months as at 31 December 2022 and 31 December 2021 were in the range of 0.60%-6.00% and 0.05%-1.20%, per annum, respectively.

# Notes to the Consolidated Financial Statements



## 23 BANK BALANCES AND CASH (Continued)

### (c) Restricted cash

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Deposits restricted for license fee to IP holders	25,906	27,483
Deposits restricted for foreign currency products	–	8,288
	<u>25,906</u>	<u>35,771</u>

As at 31 December 2022 and 2021, the carrying amounts of the Group's restricted cash are denominated in the following:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
US\$	<u>25,906</u>	<u>35,771</u>

## 24 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares US\$
<b>Authorized</b>		
At 1 January and 31 December 2022	<u>5,000,000,000</u>	<u>50,000</u>
<b>Authorized</b>		
At 1 January and 31 December 2021	<u>5,000,000,000</u>	<u>50,000</u>





# Notes to the Consolidated Financial Statements

## 24 SHARE CAPITAL AND SHARE PREMIUM (Continued)

	Number of ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent Nominal value of ordinary shares RMB'000	Share premium RMB'000
<b>Issued</b>				
<b>At 1 January 2022</b>	<b>791,491,279</b>	<b>8</b>	<b>55</b>	<b>6,951,009</b>
Vesting of RSUs (Note (a))	4,918,561	–	–	40,764
Cancellation of treasury shares (Note 25(a))	(8,041,370)	–	–	(45,149)
<b>At 31 December 2022</b>	<b>788,368,470</b>	<b>8</b>	<b>55</b>	<b>6,946,624</b>
<b>Issued</b>				
<b>At 1 January 2021</b>	786,110,000	8	55	6,907,441
Vesting of RSUs (Note (a))	7,095,279	–	–	56,225
Cancellation of treasury shares (Note 25(a))	(1,714,000)	–	–	(12,657)
<b>At 31 December 2021</b>	<b>791,491,279</b>	<b>8</b>	<b>55</b>	<b>6,951,009</b>

Note:

- (a) During the year ended 31 December 2022, 4,918,561 ordinary shares of the Company were transferred to the share awardees upon vesting of the awarded shares under the scheme which is disclosed in Note 26(b) (during the year ended 31 December 2021: 7,095,279).

# Notes to the Consolidated Financial Statements



## 25 OTHER RESERVES

	Capital reserve RMB'000	Statutory reserve RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2022</b>	<b>(1,851,237)</b>	<b>5,000</b>	<b>259,198</b>	<b>(250,900)</b>	<b>(31,036)</b>	<b>(1,868,975)</b>
Share-based compensation (Note 26)	-	-	36,642	-	-	36,642
Vesting of RSUs	-	-	(40,764)	-	-	(40,764)
Repurchase and cancellation of shares (Note (a))	-	-	-	-	(7,466)	(7,466)
Currency translation differences	-	-	-	208,364	-	208,364
<b>At 31 December 2022</b>	<b>(1,851,237)</b>	<b>5,000</b>	<b>255,076</b>	<b>(42,536)</b>	<b>(38,502)</b>	<b>(1,672,199)</b>
<b>At 1 January 2021</b>	<b>(1,851,237)</b>	<b>5,000</b>	<b>249,840</b>	<b>(174,363)</b>	<b>(23,291)</b>	<b>(1,794,051)</b>
Share-based compensation (Note 26)	-	-	65,583	-	-	65,583
Vesting of RSUs	-	-	(56,225)	-	-	(56,225)
Repurchase and cancellation of shares (Note (a))	-	-	-	-	(7,745)	(7,745)
Currency translation differences	-	-	-	(76,537)	-	(76,537)
<b>At 31 December 2021</b>	<b>(1,851,237)</b>	<b>5,000</b>	<b>259,198</b>	<b>(250,900)</b>	<b>(31,036)</b>	<b>(1,868,975)</b>

Note:

(a) During the year ended 31 December 2022, the Group repurchased a total of 12,616,370 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$61,261,900 (approximately RMB52,616,331). A total of 8,041,370 repurchased shares have been cancelled as of 31 December 2022.

During the year ended 31 December 2021, the Group repurchased a total of 2,871,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$24,637,550 (approximately RMB20,402,000). A total of 1,714,000 repurchased shares have been cancelled as of 31 December 2021.

## 26 SHARE-BASED PAYMENTS

### (a) Share Option Scheme

The Company adopted the share option scheme at the extraordinary general meeting on 5 February 2021 (the "Adoption Date") (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentive or reward to employees (excluding any director) of the Group for their contribution to, and continuing efforts to promote the interests of, the Group, and to incentive them to remain with the Group.

Upon the Share Option Scheme, the aggregate number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 40,775,500 shares representing 5% of the total number of shares in issue as at the Adoption Date.



# Notes to the Consolidated Financial Statements

## 26 SHARE-BASED PAYMENTS *(Continued)*

### (a) Share Option Scheme *(Continued)*

On 14 April 2021, 8,155,100 share options were granted to eligible grantees under the Share Option Scheme. Pursuant to the Share Option Scheme, subject to grantee's employment or service to the Group through the applicable vesting date, the share options shall become vested with respect to 40%, 30% and 30% of the share options on each of the first trading day after 12, 24 and 36 months from the grant date. Each share option entitles the holder to subscribe for one share upon exercise of such share option at an exercise price of HK\$14.756 per share.

On 7 January 2022 ("modification date"), the Company cancelled the existing 6,764,377 exercisable share options (the "Outstanding share options") and offered to grant 6,764,377 new share options to the existing holders to subscribe for 6,764,377 ordinary shares at a lower exercise price, which are served as replacement of the cancelled Outstanding share options under the Share Option Scheme. The exercise price was reduced from HK\$14.756 to HK\$8.72. The terms of the original share options are otherwise the same. This arrangement is treated as if the original share options had been modified. As a result, the incremental fair value granted should be expensed over the new vesting period since the modification date in addition to the Company continuing to charge for the original share options over the original vesting period.

The options may be exercised at any time after they have vested subject to the terms and conditions described in the offer letter until the last day of the 10-year period after the modification date.

Movements in the number of share options granted are as follows:

	<b>Number of share options</b>
<b>At 1 January 2022</b>	<b>6,776,377</b>
Vested	<b>(2,513,714)</b>
Forfeited	<b>(1,182,818)</b>
	<hr/>
<b>At 31 December 2022</b>	<b>3,079,845</b>
	<hr/>
	Number of share options
<b>At 1 January 2021</b>	–
Granted	8,155,100
Forfeited	(1,378,723)
	<hr/>
<b>At 31 December 2021</b>	<b>6,776,377</b>

# Notes to the Consolidated Financial Statements



## 26 SHARE-BASED PAYMENTS (Continued)

### (a) Share Option Scheme (Continued)

No share option was expired or exercised during the year ended 31 December 2022 and the remaining contractual life of outstanding share options was 9 years as of 31 December 2022.

The Company used binomial pricing model to determine the fair value of the share option granted, which is to be expensed over the vesting period.

Management estimated the risk-free interest rate based on the yield of Hong Kong government bond with a maturity life equal to the remaining time to maturity of the share options. Volatility was estimated at grant date and modification date based on the average of historical volatilities of the comparable companies with length commensurable to the remaining time to maturity of the share options. Dividend yield is based on management estimation at the grant date and modification date.

Key parameters and results in applying the binomial model on original grant date and modification date of share options are summarized as below:

	Grant date As at 14 April 2021	Modification date As at 07 January 2022	
		Before modification	After modification
Risk-free interest rate	1.30%	1.74%	1.81%
Volatility	56.00%	55.73%	55.54%
Dividend yield	0.52%	0.85%	0.85%
Fair value per share option (HK\$)	6.02	2.22	3.38

### (b) Restricted Share Unit Scheme

On 1 April 2020, to incentivize directors, senior management and employees, a RSU Scheme was approved and adopted by the Company ("Pre-IPO RSU Scheme"). Smooth Ebony Limited ("Smooth Ebony") was incorporated to hold 5,000,000 ordinary shares (in equivalent to 29,400,000 underlying shares upon the completion of the Capitalization Issue). Smooth Ebony acts as the holding company to hold the shares on trust under the Pre-IPO RSU Scheme. Smooth Ebony was consolidated by the Company as to the Company is able to execute power over the control and management over Smooth Ebony.

On 1 April 2020 and 24 June 2020, in exchange for employee services to the Group, 3,180,700 RSUs in equivalent to 3,180,700 shares, or 18,702,516 underlying shares after taking into account the Capitalization Issue, were granted to certain eligible employees selected by the Board of Directors. Pursuant to the Pre-IPO RSU Scheme, subject to grantee's employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from the Listing date of the Company.

On 1 February 2021, 29 March 2021, 25 August 2021, 25 March 2022 and 30 August 2022, the Company granted RSUs representing an aggregate of 2,521,200 underlying shares to certain eligible employees pursuant to the Pre-IPO RSU Scheme. Subject to grantee's employment or service to the Group through the applicable vesting date, the RSUs shall become vested with respect to 40%, 30% and 30% of the RSUs on each of the first trading day after 12, 24 and 36 months from a certain date.



# Notes to the Consolidated Financial Statements

## 26 SHARE-BASED PAYMENTS *(Continued)*

### (b) Restricted Share Unit Scheme *(Continued)*

On 22 December 2022, the new restricted share unit scheme of the Company was approved and adopted by the shareholders ("RSU Scheme"). There was no RSUs were granted under the RSU Scheme until 31 December 2022.

Movement in the number of underlying shares represented by RSUs for the year ended 31 December 2022 is as follows:

	Number of underlying shares represented by RSUs	Weighted average fair value per RSU (HK\$)
<b>At 1 January 2022</b>	<b>10,276,445</b>	<b>9.282</b>
Granted	1,607,000	7.394
Vested	(4,918,561)	9.200
Forfeited	(1,076,104)	10.046
	<u>5,888,780</u>	<u>8.696</u>
<b>At 31 December 2022</b>	<b>5,888,780</b>	<b>8.696</b>
<b>At 1 January 2021</b>	17,996,916	8.684
Granted	914,200	16.376
Vested	(7,095,279)	8.729
Forfeited	(1,539,392)	9.058
	<u>10,276,445</u>	<u>9.282</u>
<b>At 31 December 2021</b>	<b>10,276,445</b>	<b>9.282</b>

As the Group will receive employment or service of these employees in exchange for the grant of RSUs, share-based compensation expenses in respect of the employee services received is to be recognized as an expense over the vesting period. The total amount to be expensed is determined by the fair value of the RSUs granted at the grant date and taking into account the number of RSUs that are expected to be vested.

Prior to the completion of IPO, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and to determine the fair value of the RSUs granted as at the grant date. Key assumptions, such as discount rate, risk-free interest rate and volatility, are required to be determined by the Group with best estimate.

The fair value of the RSUs granted on 1 February 2021, 29 March 2021, 25 August 2021, 25 March 2022 and 30 August 2022 was determined using the market method with reference to the grant date closing share price of the Company.

# Notes to the Consolidated Financial Statements



## 26 SHARE-BASED PAYMENTS *(Continued)*

### (c) Expenses arising from share-based payment transactions

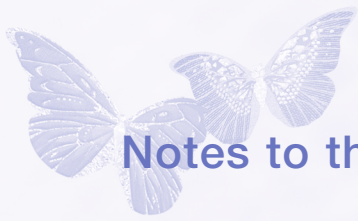
For the year ended 31 December 2022, share-based compensation expenses arising from the share-based awards granted by the Company have been charged to the consolidated statement of profit or loss as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Cost of revenue	556	647
Administrative expenses	7,245	12,051
Selling and marketing expenses	2,322	3,090
Research and development expenses	26,519	49,795
	<b>36,642</b>	65,583

## 27 DEFERRED INCOME TAXES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Deferred tax assets		
– to be recovered within 12 months	21	–
– to be recovered after more than 12 months	1,932	1,762
Deferred tax liabilities		
– to be recovered within 12 months	(413)	–
– to be recovered after more than 12 months	(2,373)	(3,132)
Deferred tax liabilities, net	<b>(833)</b>	(1,370)



# Notes to the Consolidated Financial Statements

## 27 DEFERRED INCOME TAXES (Continued)

The movements in the gross deferred tax assets accounts are as follows:

	Allowance for impairment on financial assets RMB'000	Tax losses RMB'000	Contract liabilities RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2022</b>	26	-	-	1,736	1,762
(Charged)/credited to the consolidated statement of profit or loss	(5)	-	-	196	191
<b>At 31 December 2022</b>	21	-	-	1,932	1,953
<b>At 1 January 2021</b>	630	10,236	2,799	1,382	15,047
(Charged)/credited to the consolidated statement of profit or loss	(604)	(10,236)	(2,799)	354	(13,285)
<b>At 31 December 2021</b>	26	-	-	1,736	1,762

The movements in the gross deferred tax liabilities accounts are as follows:

	Fair value change in financial assets at fair value through profit or loss RMB'000	Contract cost RMB'000	Total RMB'000
<b>At 1 January 2022</b>	(3,132)	-	(3,132)
Credited to the consolidated statement of profit or loss	346	-	346
<b>At 31 December 2022</b>	(2,786)	-	(2,786)
<b>At 1 January 2021</b>	(154)	(1,201)	(1,355)
(Charged)/credited to the consolidated statement of profit or loss	(2,978)	1,201	(1,777)
<b>At 31 December 2021</b>	(3,132)	-	(3,132)

# Notes to the Consolidated Financial Statements



## 27 DEFERRED INCOME TAXES *(Continued)*

The movements in the gross deferred tax liabilities accounts are as follows *(Continued)*:

Deferred income tax assets are recognized for tax losses carried forward and deductible temporary differences to the extent that realization of the related tax benefits through the future taxable profits is probable. As at 31 December 2022 and 2021, the Group did not recognize deferred income tax assets of RMB183,306,000 and RMB141,865,000 in respect of cumulative tax losses amounting to RMB1,104,309,000 and RMB599,327,000 that can be carried forward against future taxable income. These tax losses will expire from year 2023 to 2027.

## 28 TRADE AND OTHER PAYABLES

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Payroll liabilities	<b>67,195</b>	67,778
Trade payables	<b>66,874</b>	37,102
Tax payables	<b>14,361</b>	14,235
Asset procurement	<b>731</b>	5,195
Others	<b>8,741</b>	7,852
	<b>157,902</b>	132,162

The following table sets forth the carrying amount of trade payables by customer types:

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Related parties (Note 31(c))	<b>8,634</b>	11,449
Third parties	<b>58,240</b>	25,653
	<b>66,874</b>	37,102





# Notes to the Consolidated Financial Statements

## 28 TRADE AND OTHER PAYABLES *(Continued)*

The aging analysis of trade payables based on recognition date is as follows:

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Up to 6 months	<b>55,251</b>	26,766
6 months to 1 year	<b>9,275</b>	9,042
Over 1 year	<b>2,348</b>	1,294
	<b>66,874</b>	37,102

## 29 CASH FLOW INFORMATION

### (a) Cash generated from operations

	<b>Year ended 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Loss before income tax</b>	<b>(767,788)</b>	(287,755)
Adjustments for:		
Amortization of intangible assets (Note 16)	<b>14,071</b>	13,699
Depreciation of property, plant and equipment (Note 15)	<b>11,434</b>	8,065
Depreciation of right-of-use assets (Note 17)	<b>38,975</b>	37,695
Allowance/(reversal) for impairment on financial assets	<b>173</b>	(2,930)
Share-based compensation (Note 26)	<b>36,642</b>	65,583
Losses/(gains) on financial assets and liabilities at fair value through profit or loss (Note 7)	<b>48,146</b>	(25,055)
Finance (costs)/income, net	<b>(17,692)</b>	1,939
Share of results of investments accounted for using the equity method (Note 11)	<b>13,437</b>	9,950
Net exchange differences	<b>18,235</b>	(62,631)
Change in working capital:		
Decrease in trade receivables	<b>24,412</b>	175,678
Decrease/(increase) in prepayments, other receivables and other assets	<b>1,093</b>	(9,849)
Increase/(decrease) in trade and other payables	<b>27,781</b>	(74,255)
Increase/(decrease) in contract liabilities	<b>20,308</b>	(2,029)
<b>Cash used in from operating activities</b>	<b>(530,773)</b>	(151,895)

# Notes to the Consolidated Financial Statements



## 29 CASH FLOW INFORMATION *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities

	<b>Lease liabilities RMB'000</b>
<b>As at 1 January 2021</b>	<u>164,843</u>
Cash flows	(41,811)
Other non-cash movements-accrue interest	7,369
Other non-cash movements-increase of leasing liabilities	<u>5,478</u>
<b>As at 31 December 2021</b>	<u>135,879</u>
Cash flows	(43,783)
Other non-cash movements-accrue interest	5,832
Other non-cash movements-increase of leasing liabilities	<u>4,792</u>
<b>As at 31 December 2022</b>	<u><b>102,720</b></u>

## 30 COMMITMENTS

### (a) Capital Commitments

The Group had the following capital commitments under non-cancelable purchase agreements at the end of each reporting period.

	<b>As at 31 December</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Intangible assets	<u><b>25,769</b></u>	<u>23,807</u>

### (b) Operating lease commitments

The Group has non-cancelable operating lease agreements with initial terms of 12 months or less. The portfolio of short-term leases to which the Group was committed as at 31 December 2022 and 2021 is similar to the portfolio of short-term lease to which the short-term lease expenses is disclosed in Note 17.



# Notes to the Consolidated Financial Statements

## 31 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes, the following significant transactions were carried out between the Group and its related parties. 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.

### (a) Names and relationships with related parties

The following companies are related parties of the Group that had balances and/or transactions with the Group.

Company	Relationship
Shenzhen Tencent Computer Systems Company Limited	Subsidiary of a shareholder
Beijing Perfect World Software Technology Development Co., Ltd.	Subsidiary of a shareholder
Chengdu Perfect World Network Technology Co., Ltd.	Subsidiary of a shareholder
Tencent Cloud Computing (Beijing) Company Limited	Subsidiary of a shareholder
Sixjoy Hong Kong Limited	Subsidiary of a shareholder
Tencent Technology (Shenzhen) Company Limited	Subsidiary of a shareholder
Shenzhen Tencent Tianyou Technology Company Limited	Subsidiary of a shareholder
Shanghai Tencent Penguin Film Culture Communication Co., Ltd.	Subsidiary of a shareholder
Huai'an FlameDragon Entertainment Software Co., Ltd.	Associate of the Group

### (b) Significant transactions with related parties

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Provision of services:</b>		
Shenzhen Tencent Computer Systems Company Limited	137,635	341,368
Sixjoy Hong Kong Limited	23,883	56,417
Shenzhen Tencent Tianyou Technology Company Limited	8,903	–
Huai'an FlameDragon Entertainment Software Co., Ltd.	85	489
	<b>170,506</b>	<b>398,274</b>

# Notes to the Consolidated Financial Statements



## 31 RELATED PARTY TRANSACTIONS (Continued)

### (b) Significant transactions with related parties (Continued)

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Purchase of services:</b>		
Chengdu Perfect World Network Technology Co., Ltd.	4,606	20,200
Tencent Cloud Computing (Beijing) Company Limited	3,755	3,011
Beijing Perfect World Software Technology Development Co., Ltd.	2,303	3,085
Shenzhen Tencent Tianyou Technology Company Limited	167	–
Shenzhen Tencent Computer Systems Company Limited	126	260
	<b>10,957</b>	<b>26,556</b>

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Purchase of intangible assets:</b>		
Shanghai Tencent Penguin Film Culture Communication Co., Ltd.	11,792	–
Shenzhen Tencent Tianyou Technology Company Limited	1,393	–
	<b>13,185</b>	<b>–</b>



# Notes to the Consolidated Financial Statements

## 31 RELATED PARTY TRANSACTIONS (Continued)

### (c) Year end balances with related parties

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
<b>Trade receivables from related parties:</b>		
Shenzhen Tencent Computer Systems Company Limited	53,239	65,322
Sixjoy Hong Kong Limited	9,109	20,761
Shenzhen Tencent Tianyou Technology Company Limited	807	–
Huai'an FlameDragon Entertainment Software Co., Ltd.	38	611
Tencent Technology (Shenzhen) Company Limited	–	1,410
	<b>63,193</b>	<b>88,104</b>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and interest-free.

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
<b>Contract liabilities to related parties:</b>		
Sixjoy Hong Kong Limited	18,282	3,985
Shenzhen Tencent Computer Systems Company Limited	13,139	11,270
	<b>31,421</b>	<b>15,255</b>

# Notes to the Consolidated Financial Statements



## 31 RELATED PARTY TRANSACTIONS (Continued)

### (c) Year end balances with related parties (Continued)

The contract liabilities to related parties arise from trade transactions.

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Trade payables to related parties:</b>		
Chengdu Perfect World Network Technology Co., Ltd.	4,533	7,926
Beijing Perfect World Software Technology Development Co., Ltd.	2,267	3,263
Shenzhen Tencent Tianyou Technology Company Limited	1,566	–
Tencent Cloud Computing (Beijing) Company Limited	268	260
	<b>8,634</b>	<b>11,449</b>

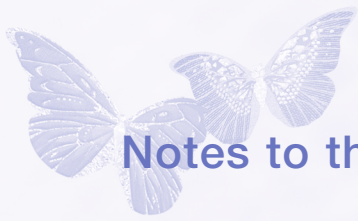
### (d) Key management compensation

Key management includes executive directors and other members of the Company's senior management team. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Basic salaries	21,189	10,396
Bonuses	3,500	1,694
Other social security costs and housing benefits and other employee benefits	512	484
Pension costs – defined contribution plans	370	336
	<b>25,571</b>	<b>12,910</b>

## 32 CONTINGENCIES

The Group did not have any material contingent liabilities as at 31 December 2022 and 2021.



# Notes to the Consolidated Financial Statements

## 33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### (a) Balance sheet of the Company

	As at 31 December	
	2022 RMB'000	2021 RMB'000
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	80	97
Investment in subsidiaries	4,144,894	3,901,997
	<u>4,144,974</u>	<u>3,902,094</u>
<b>Current assets</b>		
Prepayments, other receivables and other assets	2,108,021	1,955,606
Cash and cash equivalents	3,952	31,200
	<u>2,111,973</u>	<u>1,986,806</u>
<b>Total assets</b>	<u>6,256,947</u>	<u>5,888,900</u>
<b>Equity and liabilities</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	55	55
Share premium	6,946,624	6,951,009
Other reserves	3,264	(372,640)
Accumulated losses	(706,637)	(701,145)
	<u>6,243,306</u>	<u>5,877,279</u>
<b>Current liabilities</b>		
Trade and other payables	13,641	11,621
	<u>13,641</u>	<u>11,621</u>
<b>Total equity and liabilities</b>	<u>6,256,947</u>	<u>5,888,900</u>

The balance sheet of the Company was approved by the Board of Directors on 24 March 2023 and was signed on its behalf:

\_\_\_\_\_  
**Li Qing**  
Director

\_\_\_\_\_  
**Bai Wei**  
Director

# Notes to the Consolidated Financial Statements



## 33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

### (b) Movement of reserves of the Company

The changes in the reserves of the Company during the year ended 31 December 2022 is as follows:

	Share premium RMB'000	Other reserves RMB'000	Total reserves RMB'000	Accumulated losses RMB'000
<b>Balance at 1 January 2022</b>	<u>6,951,009</u>	<u>(372,640)</u>	<u>6,578,369</u>	<u>(701,145)</u>
<b>Comprehensive loss</b>				
Loss for the year	-	-	-	(5,492)
<b>Other comprehensive loss</b>				
Currency translation differences	-	<u>387,492</u>	<u>387,492</u>	-
<b>Total comprehensive loss</b>	<u>-</u>	<u>387,492</u>	<u>387,492</u>	<u>(5,492)</u>
<b>Transactions with owners in their capacity as owners</b>				
Share-based compensation	-	<u>36,642</u>	<u>36,642</u>	-
Vesting of restricted share units	<u>40,764</u>	<u>(40,764)</u>	-	-
Repurchase and cancellation of shares	<u>(45,149)</u>	<u>(7,466)</u>	<u>(52,615)</u>	-
<b>Total transactions with owners in their capacity as owners</b>	<u>(4,385)</u>	<u>(11,588)</u>	<u>(15,973)</u>	-
<b>Balance at 31 December 2022</b>	<u>6,946,624</u>	<u>3,264</u>	<u>6,949,888</u>	<u>(706,637)</u>





# Notes to the Consolidated Financial Statements

## 33 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

### (b) Movement of reserves of the Company *(Continued)*

The changes in the reserves of the Company during the year ended 31 December 2021 is as follows:

	Share premium RMB'000	Other reserves RMB'000	Total reserves RMB'000	Accumulated losses RMB'000
<b>Balance at 1 January 2021</b>	6,907,441	(249,376)	6,658,065	(696,963)
<b>Comprehensive loss</b>				
Loss for the year	-	-	-	45,840
<b>Other comprehensive loss</b>				
Currency translation differences	-	(124,877)	(124,877)	-
<b>Total comprehensive loss</b>	-	(124,877)	(124,877)	45,840
<b>Transactions with owners in their capacity as owners</b>				
Share-based compensation	-	65,583	65,583	-
Vesting of restricted share units	56,225	(56,225)	-	-
Repurchase and cancellation of shares	(12,657)	(7,745)	(20,402)	-
Dividends	-	-	-	(50,022)
<b>Total transactions with owners in their capacity as owners</b>	43,568	1,613	45,181	(50,022)
<b>Balance at 31 December 2021</b>	6,951,009	(372,640)	6,578,369	(701,145)

## 34 SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Group after 31 December 2022.

**祖龙娱乐**  
ARCHOSAUR GAMES

**祖龙娱乐有限公司**  
**Archosaur Games Inc.**