



Fulu Holdings Limited 福祿控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2101



2021

Annual Report

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BOARD OF DIRECTORS

Executive Directors

Mr. Fu Xi (符熙) (*Chairman and CEO*)
Mr. Zhang Yuguo (張雨果)
Mr. Shui Yingyu (水英聿)
Mr. Zhao Bihao (趙筆浩)
Mr. Mao Feng (茅峰)

Independent Non-executive Directors

Mr. Li Wai Chung (李偉忠)
Ms. Wang Yuyun (王雨雲)
(alias Wang Yuyun (王雨蘊))
Mr. Wong Sincere (黃誠思)

AUDIT COMMITTEE

Mr. Li Wai Chung (李偉忠) (*Chairman*)
Ms. Wang Yuyun (王雨雲)
Mr. Wong Sincere (黃誠思)

REMUNERATION COMMITTEE

Ms. Wang Yuyun (王雨雲) (*Chairman*)
Mr. Fu Xi (符熙)
Mr. Wong Sincere (黃誠思)

NOMINATION COMMITTEE

Mr. Fu Xi (符熙) (*Chairman*)
Mr. Wong Sincere (黃誠思)
Mr. Li Wai Chung (李偉忠)

JOINT COMPANY SECRETARIES

Mr. Mao Feng (茅峰)
Ms. Ng Ka Man (吳嘉雯) (*ACG, HKACG*)

AUTHORIZED REPRESENTATIVES

Mr. Mao Feng (茅峰)
Ms. Ng Ka Man (吳嘉雯) (*ACG, HKACG*)

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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The PRC

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LEGAL ADVISORS

As to Hong Kong law:

Latham & Watkins LLP
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8 Connaught Place, Central
Hong Kong

As to PRC law:

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Hubei Province
The PRC

As to Cayman Islands law:

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COMPLIANCE ADVISOR

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Hong Kong

HONG KONG SHARE REGISTER

Computershare Hong Kong Investor Services
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PRINCIPAL BANKERS

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Wuhan
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The PRC

STOCK CODE

2101

COMPANY'S WEBSITE

www.fulu.com



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31,

	2021	2020	2019	2018	2017
		<i>(RMB in thousands)</i>			
Revenue	399,283	328,210	241,919	208,913	243,759
Gross profit	295,244	260,358	193,516	158,771	185,824
Profit before tax	75,197	122,278	85,344	68,320	93,884
Profit for the year	68,222	120,898	80,615	62,697	77,995
Profit for the year attributable to the equity holders of the Company	68,222	120,898	80,638	62,809	78,132
Total comprehensive income for the year	68,222	120,898	80,615	62,697	77,995
Total comprehensive income for the year attributable to the equity holder of the Company	68,222	120,898	80,638	62,809	78,132
Non-IFRS measure adjusted profit for the year	170,380	153,209	106,060	76,214	88,276



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31,

	2021	2020	2019	2018	2017
		<i>(RMB in thousands)</i>			
Assets					
Non-current assets	33,585	165,839	15,797	16,559	14,043
Current assets	1,343,723	1,227,986	468,736	395,856	303,562
Total assets	1,377,308	1,393,825	484,533	412,415	317,605
Equity attributable to owners of the parent					
Share capital	275	273	70	0	0
Reserves	1,163,654	1,105,810	253,694	185,882	111,179
Total equity	1,163,929	1,106,083	253,764	185,882	111,179
Liabilities					
Non-current liabilities	5,945	1,811	1,067	3,166	4,656
Current liabilities	207,434	285,931	229,702	223,367	201,770
Total liabilities	213,379	287,742	230,769	226,533	206,426
Total equity and liabilities	1,377,308	1,393,825	484,533	412,415	317,605





CHAIRMAN'S STATEMENT

Dear Shareholders,

At the beginning of 2021, the launch of COVID-19 vaccination was expected to bring hope to the global health crisis, but the new COVID-19 variants continuously emerged. The pandemic has lasted for 27 months so far. In the face of various challenges, we have suffered from mental, physical and economic hardship from the pandemic. What gives me hope is that most of the regions around the world have gradually resumed their normal life, and I believe that there will be the last winter with COVID-19 in 2022.

Compared with the past, I have been thinking more about what Fulu represents at this difficult time, who we are serving and what our values are to the society. With the advent of the digital age, more and more consumption scenarios and demands are being activated. However, highly dispersed traffic and users, and the unique needs of users have formed a natural gap between resources, channels and consumers, resulting in low efficiency and poor circulation of the whole market. We, located in the industry hub, can understand the needs of all parties, promote digital consumption and create more business through extensive connections with all parties and provision of efficient services. The value of Fulu is to act as a hub, driving resources and optimizing allocation with data insight, and providing comprehensive assistance for the brand operation and marketing growth of upstream and downstream. At the same time, we helped tens of thousands of customers to reduce their costs and become our partner to share our achievements in digital economy. All of these are Fulu's mission.

Our business covers four types of markets: Fulu starts in the card and coupon channel market (distribution and e-commerce agent operation); focuses on the marketing and operation service market (equity portfolio business and SaaS marketing and operation) and the retail service market of cards and coupons (terminal retail operation); and is exploring the diversified traffic market (terminal vertical field operation). No matter in which market, Fulu always stands at the hub in the entire digital economy through its strong ability to collect equity and channel resources, the ability to have a keen insight into the market trend, and the ability to understand the needs of upstream and downstream enterprises.

Despite of mounting urgent problems required to be resolved, a series of events in 2021 have made us focus on some more meaningful issues, such as the governmental supervision on the big data security, anti-addiction for juveniles and anti-monopoly measures for e-commerce platforms. We believe all participants in various digital rights commodity sectors including Fulu can play a significant role in above-mentioned fields and promote their positive development in the long run.

This is why we advocate sustainable and more inclusive economy. We always asked ourselves about how to make contributions during the effective transition of the whole economy to the low carbon emission economy and how to enable more people to benefit from the long-term growth of the digital economy. I believe that "Fulu can help more partners benefit from digital economy only when we can provide solutions for some urgent problems faced by the digital products sales."



This shall start with the provision of services to all participants of our platform. We established the Fulu Open Platform four years ago, helping customers to deal with product warehouse management and capital flow in a more convenient and flexible manner. Specifically, since we commenced the agent operation business, the number of brands under Fulu's management entrusted by customers has increased from 31 in 2019 to 88. With the growth in brands under operation, the first thing we considered is to bring benefits to customers along with our growing scale, such as offering them lower transaction cost and more convenient SaaS applications.

I got to understand through exchange with counterparties over the past year that it becomes more difficult to obtain sufficient capital for further investment. To help partners share the fruits of the digital economy, we provide solutions, technology and the way of thinking required for all parties, help and cooperate with companies with financial liquidity barriers. Therefore, we launch Fulu's partner business plan following the aforesaid concept to provide support for customers in terms of six aspects including finance, market, product, training, technology and after-sales, to share the development achievements of digital economy.

Meanwhile, this promotes the development of the "vertical and horizontal" strategy, and enables more participants of our platform to easily participate in the digital products market and obtain profit through Fulu Open Platform. That's why we continually make investments in technology, provide all parties with one-stop solutions during the whole transaction cycle, and could even take the lead in reducing the transaction cost of small customers.

We not only make investments in business for product development or operation enhancement, but also invest time, money and energy into our culture. Fulu's mission is to build an intelligent center for digital consumption and achieve rich and interesting digital commerce. We have fully realized that this power of culture binds us together and promotes our progress. As a service provider, "achievement" is our business foundation. Adding fun to the digital business world and creating business surprises for more partners are what we can do and what we are good at. We believe that in the future, everything can be digitized, and Fulu will be an important participant in it. By adhering to the altruism of supporting others' achievements and the belief of long-termism, we have crossed the time cycle and become the leader in the industry, which has also indirectly affected the digital life of 560 million Internet consumers.





CHAIRMAN'S STATEMENT

Due to our continuous exploration and innovation, we were awarded various industry awards and honors in 2021, such as being awarded the honor of Tmall 4-Star Agent Operation Service Provider for three consecutive years; being rated as “Excellent Partner” by Tencent Video and Himalaya for two consecutive years; being awarded “Excellent Software Enterprise” in Wuhan; being named the King of New Economic “Hardcore Enterprise of the Year” by 36Kr; becoming the best service provider of Tiktok, Tao Te and Ping An Bank; being rated as “Best SaaS Company” and “Best IR Team” by Zhitong Caijing; and receiving the “Best Human Resources Management Team” of 2021GHRC of Moka.

FINANCIAL SUMMARY

The Group's revenue for the year ended December 31, 2021 was RMB399 million, an increase of 21.7% over RMB328 million in 2020; the profit for the year decreased by 43.6% from RMB121 million in 2020 to RMB68 million in 2021, including RMB81 million of share-based payments incurred by the Controlling Shareholder of the Company in awarding shares to core employees under IFRSs. The adjusted profit for the year increased by 11.2% from RMB153 million in 2020 to RMB170 million in 2021. The operating cash outflow in 2021 was RMB124 million, a decrease of RMB62 million compared with the operating cash outflow of RMB186 million in 2020. We achieved the operating cash inflow of RMB106 million in the second half of 2021, reversing the outflow of operating cash flow for two consecutive half years. Cash and cash equivalents amounted to RMB209 million and the Company has abundant cash reserves.

BUSINESS OVERVIEW

As of December 31, 2021, our GMV was RMB21.318 billion, up by 46.5% from RMB14.553 billion in 2020. Among them, GMV from the lifestyle segment was RMB1.555 billion, an increase of 137.7% over RMB654 million in 2020; GMV from the leisure and entertainment segment was RMB5.576 billion, an increase of 118.1% over RMB2.556 billion in 2020; GMV from the telecommunications segment was RMB12.857 billion, an increase of 35.3% over RMB9.503 billion in 2020; GMV from the games segment was RMB1.331 billion, down by 27.7% from RMB1.840 billion in 2020.



The revenue by segment is as follows:

Lifestyle segment turned out to be our highlight in 2021, with the revenue increased by 68.9% from RMB24 million in 2020 to RMB41 million in 2021. Such rapid increase was due to: firstly, the expansion of new product categories such as ELEME, Meituan, Nayuki's tea, KEEP and JD Card and Coupon, and secondly, the newly established Promotion Alliance Center, with its self-operated teams and partners in more than 300 cities across the country, provides efficient and accurate online and offline customer acquisition services for Alibaba, Meituan, Byte Dance, Baidu and other leading Internet companies, as well as financial institutions such as CITIC and Ping An. Its business covers community group buying, e-commerce, travel, short video, finance, games and other fields.

Revenue from the leisure and entertainment segment increased by 38.3% from RMB156 million in 2020 to RMB216 million in 2021. Our business partners in video business: iQiyi, Tencent Video, Youku, Mango TV, Bilibili, Migu; music business: QQ Music, Kugou Music, NetEase Cloud Music, Kuwo Music; tool business: Baidu Netdisk, Baidu Wenku, WPS, Weibo, QQ Member, QQ Yellow Diamond, Thunder, Zhihu, Meitu; reading business: QQ Reading, Shuqi Novel; sports business: Tencent NBA, iQiyi Sports; there are also newly expanded live streaming businesses in 2021: DouYu, Momo, Inke, Lai Feng, LOOK Live, Huya Live, Bixin Live, Qixiu Live, Tantan Live, and KK Live.

Revenue from the telecommunications segment increased by 72.4% from RMB47 million in 2020 to RMB81 million in 2021, which was primarily due to the expansion in downstream consumption scenarios and the increase in commission rate.

Revenue from the games segment decreased by 39.1% from RMB101 million in 2020 to RMB62 million in 2021. We proactively adjust our game product structure according to the national policies by reducing certain products with lower margins.

The revenue by nature is as follows:

The revenue from digital goods-related services increased by 30.5% from RMB254 million in 2020 to RMB332 million in 2021.

Revenue from value-added services decreased by 8.6% from RMB74 million in 2020 to RMB68 million in 2021. 86.0% of the revenue from value-added services comes from online store operation services. During the year, 18 new brands, such as COSTA, Netease Yanxuan, Migu and Thunder, and 34 stores were introduced (mainly in Tmall, Jingdong, Pinduoduo, Tiktok, Kuaishou, Alipay applet and other channels).

The Company implements the “vertical and horizontal” strategy, vertically expanding upstream categories and downstream channels, and horizontally digging up individual user's value to extend service boundaries. For example, the cross repeat purchase rate of our cross category users reached 9%; we have launched the innovative program for joint members, which can not only enable users to obtain more privileges at a lower price, but also help brands to attract new users, and finally improve the “Average Revenue Per User” of users on our platform. Such triple-win model can benefit users, brands and platforms by forming a benign closed loop. In 2021, we got fruitful results in the e-commerce channel. We successfully entered several new e-commerce platforms, such as Hema, Little Red Book, Kuaishou, etc.



CHAIRMAN'S STATEMENT

For live-streaming e-commerce, we were successfully selected as the first premium service provider in virtual category by Tiktok in 2021. The GMV of our self-operated shops ranked Top 3 in the whole virtual category of Tiktok, and the entertainment recharge category ranked Top 1 for consecutive months (while Tencent Video ranked first in the entertainment recharge category). We cooperated with over 400 influencers in Tiktok, and the live streaming of the influencers in Kuaishou became the first single live streaming of virtual category products with sales exceeding RMB1 million. In 2021, we had 11 flagship stores in live-streaming e-commerce and the fans of our live streaming accounts reached 197,300.

It is worth mentioning that our “Fulu Partnership Project”, as one of our priorities in 2022, is the whole-process assistance project of “providing you with products” (massive digital products on Fulu Open Platform), and “offering help in sale” (providing customers with overall industry solutions and marketing trainings in line with their business scenarios), so as to help customers realize their private traffic.

Compared with any previous year, the advantages of Fulu Open Platform have been fully demonstrated in 2021. Fulu Open Platform enabled us to further strengthen the barriers of Fulu while providing customers with more flexible solutions. Fulu Open Platform ensured more than over 2,910 users to operate smoothly. Among them, the number of suppliers increased by 65% to 447 from 271 in 2020. The number of purchasers increased by 49% to 2,363 in 2021 from 1,588 in 2020.

We have over 1,000 categories of digital products, which makes it easier for any user to capture the opportunities in digital product market. We cooperated with Zalldigital to improve our data marketing capabilities; we also introduced data analysis tools to provide users with a more transparent and comprehensive view of the whole trading process, so that they can better understand their operation in the market. Through the Fulu Open Platform, we explored the long tail value, reduced the procurement costs of small and medium-sized users by SaaS tools and helped them realize private traffic. By gathering the procurement demands of countless small and medium-sized users, we created a new big market full of liquidity, so that the majority of small and medium-sized users could access to a wider range of product resources and more favourable procurement prices. To this end, we have researched and developed various applications in respect of digital malls (such as welfare mall and points mall); reduced their software costs through standardized privileges online malls (such as Jucai mall); offered SaaS tools with quick configuration function (such as Bibizan, smashing golden eggs, red envelope rain, pay for gifts, online seat selection and other applications); and developed universal points applications (such as China Unicom point redemption and Alipay scenario red envelope). Through these self-developed tools and backed by Fulu's strong products supply chain, we have resolved many pain points in upstream and downstream business and achieved win-win on the basis of user success. During the Double Eleven shopping festival in 2021, by creating a “National Voucher Hoarding Season”, our enterprise user team achieved a total GMV of more than 12 million on six platforms that day. Currently, Fulu's enterprise user business has successfully become the top three in the industry. All these prove that the business model for solving customer pain points, excavating long tail value and innovating and integrating the market is effective.

OUTLOOK

We strive to help more customers to invest in the digital products market in an easier and more efficient manner and share the fruits of the digital economy.

We will not only focus on the development of traditional business but also pay attention to opportunities in new projects and new industries, such as the enterprise welfare program. Employee welfare is an important part of the enterprise's salary and welfare system. Our Fulu Fuxi can easily help enterprises solve the four pain points of cost reduction and efficiency increase, differentiated service, welfare perception and independent choice in the implementation of welfare policies through solutions such as budget and scenario based SaaS welfare mall, intelligent care SaaS platform and integrated comprehensive welfare and management portal, so as to maximize the effectiveness of employee welfare and improve the brand image of employers.

With the development of digital economy market in China, we have paid attention to the rise of metaverse and realized that it will greatly promote the prosperity of digital products market. Therefore, in 2022, we will continue to track the development of metaverse and its commercial operation opportunities, and lay out relevant tracks such as the "NFT application" in advance. We believe that with the gradual expansion of Fulu's influence in the digital economy market, we can create a better future for more people.

EFFECT OF THE COVID-19 PANDEMIC

The uncertainty of the environment has posed a huge challenge to businesses since the pandemic struck two years ago. We remain committed to serving our customers and meeting their long-term needs, and it is this sense of mission that guides our business at such a critical time.

In August 2021, the epidemic resurfaced in Wuhan and in order to protect the health and safety of our staff, we made emergency arrangements for our staff to work at home. During this period, more than 95% of Fulu's staff worked at home. This is made possible by the fact that our work could be completed on the cloud, and the digital products didn't need offline logistics distribution. Therefore, COVID-19 pandemic had less direct impacts on the operation of the Company.

As for operating capital, we believe that the revenue and expenditure of the Group in 2022 almost strike the balance in general or even with certain surplus according to the proposed conditions and terms of payment with upstream suppliers in 2022, and by reference to the annual budget and distribution commitment to shareholders. Currently, our Company has obtained credit from three banks, and the credit line exceeds the operating cash outflow in 2021. Therefore, I believe that we will have sufficient working capital in 2022 in response to the uncertainty of China's pandemic.



CHAIRMAN'S STATEMENT

APPRECIATION

I am honored to report the prospect and future plans of Fulu to each shareholder at this time of each year. We promise that we will advance together. We are excited to embrace the reform and the emerging opportunities every year. I hereby extend my great gratitude to those who invest in Fulu to realize their long-term objectives for their long-term support.

Fulu can provide long-term and stable return for you, our shareholders by operating business for all platform participants. We will continue to create value for all our shareholders as a token of our appreciation for your longtime support by continuously leveraging our scale, diversified Fulu Open Platform and the capability in technology and innovation.

We will make persistent effort to create value for our customers, our company and the cities in which we operate. We will keep to improve ourselves as we serve our customers through continuous updates and iterations. We will help build a better future for everyone, and we will create and share the historic opportunities of the digital economy for more people.

Fu Xi

Chairman

March 28, 2022



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth the consolidated statement of profit or loss and other comprehensive income comparative figures for the year ended December 31, 2021 and 2020:

	For the year ended December 31,	
	2021 (RMB in thousands)	2020
Revenue	399,283	328,210
Cost of sales	(104,039)	(67,852)
Gross profit	295,244	260,358
Other income and gains	46,099	22,267
Selling and distribution expenses	(76,841)	(62,174)
Administrative expenses	(141,697)	(58,732)
Research and development costs	(41,357)	(25,577)
Impairment losses on financial and contract assets, net	(2,423)	(635)
Other expenses	(3,168)	(7,588)
Operating profits	75,857	127,919
Finance costs	(660)	(5,641)
Profit before tax	75,197	122,278
Income tax expense	(6,975)	(1,380)
Profit and total comprehensive income for the year	68,222	120,898
Attributable to:		
Owners of the parent	68,222	120,898
Non-IFRS measure adjusted profit for the year ⁽¹⁾	170,380	153,209

Note:

- (1) We define “adjusted profit for the year” as profit for the year by adding back Listing expenses, foreign exchange gains and losses and share-based payments because such expenses are not operating and recurring in nature. Adjusted profit for the year is not a measure required by or presented in accordance with IFRSs. The use of adjusted profit for the year has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRSs.



REVENUE

Our revenue increased by 21.7% from RMB328,210,000 in 2020 to RMB399,283,000 in 2021. This increase in revenue was primarily due to an increase in commission income from digital goods-related services driven by an increase in the GMV of digital goods transactions.

Revenue by Nature

Our revenue primarily includes (a) commissions from digital goods-related services; and (b) service fees from online store operation services and other value-added services. The following table sets forth revenue breakdown by types of services in 2021 and 2020:

	For the year ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Digital goods-related services	331,700	83.0	254,234	77.5
Value-added services				
Online store operation services	58,151	14.6	67,635	20.6
Others ⁽¹⁾	9,432	2.4	6,341	1.9
Total	399,283	100.0	328,210	100.0

Note:

(1) Include user acquisition and management services (e.g. mini-game development services) and IT solutions.

Digital goods-related services. Revenue from digital goods-related services increased by 30.5% from RMB254,234,000 in 2020 to RMB331,700,000 in 2021, primarily due to a relatively significant increase in revenue from leisure and entertainment, telecommunications and lifestyle.

Value-added services. Our value-added services consist primarily of online store operation services and other value-added service. Revenue from online store operation services decreased by 14.0% from RMB67,635,000 in 2020 to RMB58,151,000 in 2021, primarily due to the decrease in revenue from games related value-added services in online store operation services. Revenue from our other services increased by 48.7% from RMB6,341,000 in 2020 to RMB9,432,000 in 2021, primarily attributable to an increase in the business driven by user acquisition.

MANAGEMENT DISCUSSION AND ANALYSIS



Revenue by Segment

We generate revenue from four business segments: (i) leisure and entertainment; (ii) games; (iii) telecommunications; and (iv) lifestyle. The following table sets forth our revenues by segment in 2021 and 2020:

	For the year ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Leisure and entertainment	215,693	54.0	155,952	47.5
Games	61,546	15.4	100,979	30.8
Telecommunications	81,235	20.3	47,118	14.4
Lifestyle	40,809	10.3	24,161	7.3
Total	399,283	100.0	328,210	100.0

The following table sets forth the GMV attributable to different industries for the years indicated:

	For the year ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Leisure and entertainment	5,575,512	26.2	2,556,202	17.6
Games	1,330,625	6.2	1,839,754	12.6
Telecommunications	12,856,955	60.3	9,502,734	65.3
Lifestyle	1,555,075	7.3	654,229	4.5
Total	21,318,167	100.0	14,552,919	100.0

Leisure and entertainment. Revenue from the leisure and entertainment segment increased by 38.3% from RMB155,952,000 in 2020 to RMB215,693,000 in 2021, primarily driven by an increase in the leisure and entertainment digital goods transactions we facilitated. The GMV of leisure and entertainment digital goods transactions we facilitated increased by 118.1% from RMB2,556,202,000 in 2020 to RMB5,575,512,000 in 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

Games. Revenue from the games segment decreased by 39.1% from RMB100,979,000 in 2020 to RMB61,546,000 in 2021. The decrease in revenue from the games segment was primarily due to the operating strategy adjustment and the adjustment of businesses with low gross profit points, which resulted in the reduction of the transactions of some game categories. The GMV of games-related digital goods transactions we facilitated decreased by 27.7% from RMB1,839,754,000 in 2020 to RMB1,330,625,000 in 2021.

Telecommunications. Revenue from the telecommunications segment increased by 72.4% from RMB47,118,000 in 2020 to RMB81,235,000 in 2021, primarily driven by an increase in the commission rates and GMV of the telecommunications digital goods transactions we facilitated. The commission rates increased because (i) we facilitated more digital goods transactions for new digital goods vendors; and (ii) digital goods transactions conducted through a new e-commerce platform increased; we typically earn higher commissions from these transactions. The GMV of telecommunications digital goods transactions we facilitated increased by 35.3% from RMB9,502,734,000 in 2020 to RMB12,856,955,000 in 2021.

Lifestyle. Revenue from the lifestyle service segment increased by 68.9% from RMB24,161,000 in 2020 to RMB40,809,000 in 2021, primarily driven by an increase in the lifestyle service digital goods transactions we facilitated. The GMV of lifestyle service digital goods transactions we facilitated increased by 137.7% from RMB654,229,000 in 2020 to RMB1,555,075,000 in 2021.

The following table sets forth the GMV attributable to our key operating entities:

	For the year ended December 31, 2021	
	GMV	% of the Group's total GMV
	<i>(RMB in thousands, except for percentage)</i>	
Wuhan Fulu	14,805,453	69.4%
Tibet Fulu	3,903,279	18.3%
Wuhan Yiqiyou	887,231	4.1%
Hubei Kejin	638,640	3.0%
Wuhan Souka	359,845	1.7%
Wuhan Lishuo	338,009	1.6%
Xinjiang Fulu	243,027	1.1%
Wuhan Tianshi	42,254	0.2%
Hainan Fulu	23,226	0.1%
Tibet Huluwa	0	0%



COST OF SALES

Our cost of sales increased by 53.3% from RMB67,852,000 in 2020 to RMB104,039,000 in 2021, primarily because of (i) the increase in the commission service fees for online stores resulted from the increase in the number of online stores we operate for digital goods vendors and the growth of transaction GMV of the online stores; and (ii) the increase in labor costs resulted from the increase in the number of employees and the improvement of our staff structure.

Cost of Sales by Nature

The following table sets forth the components of cost of sales in 2021 and 2020:

	For the year ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Commissions	45,719	43.9	37,265	54.9
Labor-related costs	52,176	50.2	25,991	38.3
Others ⁽¹⁾	6,144	5.9	4,596	6.8
Total	104,039	100.0	67,852	100.0

Note:

(1) Primarily include fixed-fees paid to digital goods sales channels and costs of server and software.

Commissions increased by 22.7% from RMB37,265,000 in 2020 to RMB45,719,000 in 2021, primarily because of the increase in commissions service fees for online stores resulted from the increase in the number of online stores we operate for digital goods vendors and the growth of transaction GMV of the online stores.

Labour-related costs increased by 100.7% from RMB25,991,000 in 2020 to RMB52,176,000 in 2021, primarily because of the increase in the number of employees and the improvement of our staff structure.

Other costs increased by 33.7% from RMB4,596,000 in 2020 to RMB6,144,000 in 2021, primarily because of the increase in store operation service fees and operating software costs such as servers due to the increase in the number of online stores operated.



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sale by Segment

The following table sets forth segment cost of sales in 2021 and 2020:

	For the year ended December 31,			
	2021		2020	
	RMB	%	RMB	%
	<i>(RMB in thousands, except for percentage)</i>			
Leisure and entertainment	40,545	39.0	27,089	39.9
Games	23,523	22.6	17,970	26.5
Telecommunications	33,323	32.0	21,095	31.1
Lifestyle	6,648	6.4	1,698	2.5
Total	104,039	100.0	67,852	100.0

Leisure and entertainment: Cost of sales from the leisure and entertainment segment increased by 49.7% from RMB27,089,000 in 2020 to RMB40,545,000 in 2021, primarily due to: (i) an increase in service commissions and platform fees charged by sales channels as a result of the higher GMV in leisure and entertainment segment; and (ii) an increase in the number of employees in our leisure and entertainment team.

Games: Cost of sales from the games segment increased by 30.9% from RMB17,970,000 in 2020 to RMB23,523,000 in 2021, primarily due to the effect of the increase in labor costs resulting from restructuring of our game operation team and the increase in staff reserve.

Telecommunications: Cost of sales from the telecommunications segment increased by 58.0% from RMB21,095,000 in 2020 to RMB33,323,000 in 2021, reflecting an increase in the volume of telecommunications digital goods transactions we facilitated through e-commerce platforms; we generally pay commissions to e-commerce platforms for these services.

Lifestyle: Cost of sales from the lifestyle service segment increased by 291.5% from RMB1,698,000 in 2020 to RMB6,648,000 in 2021, primarily due to (i) an increase in commissions charged by e-commerce platforms as we facilitated more lifestyle-related digital goods transactions; and (ii) an increase in the number of employees in our lifestyle service operations team.



GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth our gross profit and gross profit margin by each segment for the year ended December 31, 2021 and 2020:

	For the year ended December 31,			
	2021		2020	
	RMB	%	<i>RMB</i>	<i>%</i>
	<i>(RMB in thousands, except for percentage)</i>			
Leisure and entertainment	175,148	81.2	128,863	82.6
Games	38,023	61.8	83,009	82.2
Telecommunications	47,912	59.0	26,023	55.2
Lifestyle	34,161	83.7	22,463	93.0
Total	295,244	73.9	260,358	79.3

Our overall gross profits increased by 13.4% from RMB260,358,000 in 2020 to RMB295,244,000 in 2021, primarily driven by an increase in revenue from digital goods-related services, reflecting the growth of our business, but our gross profit margin decreased from 79.3% in 2020 to 73.9% in 2021, primarily due to the increase in the number of employees in the operating team.

The gross profit from the leisure and entertainment segment increased by 35.9% from RMB128,863,000 in 2020 to RMB175,148,000 in 2021, mainly due to an expansion in product categories and an increase in volume of transactions.

The gross profit from the games segment decreased by 54.2% from RMB83,009,000 in 2020 to RMB38,023,000 in 2021, mainly due to (i) the increase in the number of employees in our operating team; and (ii) proactive operating strategies adjustments based on the adjustments of government regulatory policies.

The gross profit from the telecommunications segment increased by 84.1% from RMB26,023,000 in 2020 to RMB47,912,000 in 2021, mainly due to an increase in the volume of transactions and sales channels.

The gross profit from the lifestyle segment increased by 52.1% from RMB22,463,000 in 2020 to RMB34,161,000 in 2021, mainly due to an increase in categories of trading products and volume of sales.

OTHER INCOME AND GAINS

Our other income and gains increased by 107.0% from RMB22,267,000 in 2020 to RMB46,099,000 in 2021, primarily attributable to an increase in tax incentives and government subsidy income. The Group is entitled to tax incentives on input VAT in accordance with the relevant PRC regulations.



SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses increased by 23.6% from RMB62,174,000 in 2020 to RMB76,841,000 in 2021, mainly due to the increase in marketing expenses. Marketing expenses increased by 4.8% from RMB52,850,000 in 2020 to RMB55,374,000 in 2021, as we paid more advertising fees to certain e-commerce platforms (including the largest e-commerce platform in China) to enhance our promotion of the digital goods sold on these platforms. Our salary and welfare expenses increased by 63.5% from RMB6,695,000 in 2020 to RMB10,950,000 in 2021, reflecting a change in the employee structure and adjustment to the wage rate.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 141.3% from RMB58,732,000 in 2020 to RMB141,697,000 in 2021, primarily due to an increase in share-based payment expenses recognised of RMB81,388,000 during the year as a result of the award of 13,528,250 Shares of the Company by our Controlling Shareholders to the core staff of the Group based on the accounting standards applicable to the Company, and an increase in share-based payment expenses recognised of RMB2,097,000 as a result of the restricted share units granted by the Company to certain employees and members of senior management under the 2021 Share Award Scheme during the year.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by 61.7% from RMB25,577,000 in 2020 to RMB41,357,000 in 2021, mainly due to the increased investment in the performance improvement of self-developed intellectual property platform and the corresponding PaaS service capacity construction in accordance with the strategic requirements of the Group to develop SaaS applications. By the end of 2021, the number of employees in R&D functions had increased by 129 compared with the end of 2020, and the main planned requirements in the above strategic objectives had been basically achieved.

NET PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

Impairment losses on financial and contract assets increased by 281.6% from RMB635,000 in 2020 to RMB2,423,000 in 2021, primarily due to a provision of impairment loss for a downstream sales channel for the year ended December 31, 2021.

OTHER EXPENSES

Other expenses decreased by 58.2% from RMB7,588,000 in 2020 to RMB3,168,000 in 2021, which was primarily due to the exchange loss of RMB3,018,000 resulting from the exchange rate difference of overseas funds raised from the Global Offering, a decrease of RMB4,011,000 compared with the exchange loss in 2020.



FINANCE COSTS

Finance costs decreased by 88.3% from RMB5,641,000 in 2020 to RMB660,000 in 2021, mainly due to a decrease in interest payments after a reduction in borrowings.

OPERATING PROFITS

Our operating profit was RMB75,857,000 in 2021, compared to an operating profit of RMB127,919,000 in 2020.

PROFIT BEFORE TAX

After the deduction of finance costs, our profit before tax was RMB75,197,000 in 2021, compared to a profit of RMB122,278,000 in 2020.

INCOME TAX EXPENSES

The income tax expense increased from RMB1,380,000 in 2020 to RMB6,975,000 in 2021, mainly due to the increase of deferred tax expenses resulted from reversal of temporary differences.

PROFIT FOR THE YEAR

As a result of the foregoing, our profit decreased by 43.6% from RMB120,898,000 in 2020 to RMB68,222,000 in 2021.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the end of the Reporting Period, the Board recommended a final dividend of HK\$0.176 per Share for the year ended December 31, 2021, which will be submitted to Shareholders for approval at the forthcoming AGM of the Company.

RECONCILIATION OF NON-IFRS MEASURES TO THE NEAREST IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we use a non-IFRS measure, adjusted profit for the year, which is not required by, or presented in accordance with, IFRSs. We believe that such non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating projects that our management does not consider to be indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of adjusted profit for the year may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and investors should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRSs.





MANAGEMENT DISCUSSION AND ANALYSIS

We defined adjusted profit for the year as profit for the year by adding back Listing expenses, foreign exchange gains and losses and share-based payment because such expenses are not operating or recurring in nature. The following table reconciles our adjusted profit for the period presented to the most directly comparable financial measure calculated and presented in accordance with IFRSs:

	For the year ended December 31,	
	2021	2020
	<i>(RMB in thousands)</i>	
Profit for the year	68,222	120,898
Adjustments:		
Listing expenses	3,629	25,282
Share-based payment	95,511	–
Foreign exchange gains and losses	3,018	7,029
Non-IFRS measure adjusted profit for the year	170,380	153,209

OTHER FINANCIAL INFORMATION

Capital Structure

The Company continued to maintain a healthy and sound financial position. Our total assets decreased from RMB1,393,825,000 as at December 31, 2020 to RMB1,377,308,000 as at December 31, 2021, while our total liabilities decreased from RMB287,742,000 as at December 31, 2020 to RMB213,379,000 as at December 31, 2021.

As at December 31, 2021, the Group has not pledged its assets.

The Company has granted 3,315,928 new Shares of the Company to RSU Nominee pursuant to the general mandate of 2021 Share Award Scheme, the allotment and issuance of which was completed on September 10, 2021. For details, please refer to the Company's announcements dated September 1 and September 10, 2021.

As of December 31, 2021, the Company had 403,315,928 issued shares.



Liquidity and Capital Resources

Our principal sources of liquidity were cash from operations, and bank loans and other borrowings. As of December 31, 2021, we had cash and cash equivalents of RMB209,445,000, which were mainly denominated in Renminbi. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from our operations, bank loans, net proceeds from the Global Offering and other funds raised from capital markets from time to time, when necessary. In order to achieve better risk control, we have put in place relevant policies on cash and finance management and implemented strictly. We will regularly review our liquidity and financing needs.

The following table sets forth a summary of our net cash flow for the years ended December 31, 2021 and 2020:

	For the year ended December 31,	
	2021	2020
	<i>(RMB in thousands)</i>	
Cash and cash equivalents at beginning of the year	457,892	8,983
Cash used in operations	(118,333)	(181,542)
Income tax paid	(5,532)	(4,322)
Net cash flows used in operating activities	(123,865)	(185,864)
Net cash flows used in investing activities	(19,592)	(2,977)
Net cash flows (used in)/from financing activities	(101,319)	647,005
Net (decrease)/increase in cash and cash equivalents	(244,776)	458,164
Effect of foreign exchange losses	(3,671)	(9,255)
Cash and cash equivalents at the end of year	209,445	457,892

Net Cash Used in Operating Activities

Net cash used in operating activities for the year ended December 31, 2021 was RMB123,865,000, primarily attributable to profit before taxation of RMB75,197,000, as adjusted by:

- (i) non-cash and non-operating items, which primarily comprised effect of share-based payment of RMB95,511,000, and foreign exchange losses of RMB3,671,000; and
- (ii) changes in working capital, which primarily comprised:
 - (1) an increase of RMB194,486,000 in prepayments, other receivables and other assets, primarily reflecting (a) an increase in prepayments to digital goods vendors, primarily driven by the growth of our business; and (b) an increase in other receivables, primarily representing amounts due from certain digital goods sales channels;



- (2) an increase of RMB150,853,000 in trade receivables and contract assets, primarily due to an increase in service fees due from third-party games-related digital goods and services platform operators;
- (3) an increase of RMB7,725,000 in trade payables, primarily reflecting the overall growth of our business and the extension of business credit period;
- (4) an increase of RMB50,886,000 in other payables and accruals, primarily due to (a) an increase in other receivables for the year ended December 31, 2021 because digital goods sales channels made more advances at the end of 2021; and (b) an increase in remuneration payable; and
- (5) a decrease of RMB13,321,000 in restricted cash, primarily due to the retained funds in the bank was timely cleared by the Group and the withdrawal of such funds to bank accounts.

Net Cash Used in Investing Activities

Net cash used in investing activities for the year ended December 31, 2021 was RMB19,592,000, comprising (i) purchase of financial products of RMB600,562,000; (ii) addition to intangible assets of RMB10,284,000; and partially net off by (iii) proceeds from disposal of financial products of RMB587,462,000; and (iv) interest received of RMB6,487,000.

Net Cash Used in Financing Activities

Net cash used in financing activities for the year ended December 31, 2021 was RMB101,319,000 primarily due to (i) new bank and other borrowings of RMB1,040,212,000; (ii) repayment of bank and other borrowings of RMB1,169,012,000; (iii) payment of interest related expenses of RMB1,823,000; (iv) dividends paid of RMB105,887,000; and (v) the decrease in pledged bank deposits due to the redemption of large-denomination certificates of deposit of RMB145,000,000.

Capital Expenditures

Our capital expenditures principally consist of expenditures for the office renovation and intangible assets. Our capital expenditures increased by 733.5% from RMB1,562,000 for the year ended December 31, 2020 to RMB13,019,000 for the year ended December 31, 2021. This was attributable to office renovation expenses and expenses arising from purchase of office furniture, computers and intangible assets for the year ended December 31, 2021.



Indebtedness, Off-balance Sheet Commitment and Contingent Liabilities

As of December 31, 2021, our total indebtedness amounted to RMB213,379,000, as compared with RMB287,742,000 as of December 31, 2020, of which our interest-bearing indebtedness included lease liabilities of RMB8,702,000 and interest-bearing bank and other borrowings of RMB10,000,000 as of December 31, 2021. As of December 31, 2021, our bank and other borrowings were all denominated in RMB. For the year ended December 31, 2021, our bank loans and other borrowings were interest-bearing at rates ranging from 4.0% to 5.0% per annum (for the year ended December 31, 2020: ranging from 4.45% to 6.5%).

As of December 31, 2021, we did not have any off-balance sheet arrangements and material contingent liabilities.

Significant Investments Held

For the year ended December 31, 2021, we did not have any significant investments.

Material Acquisitions, Disposals and Future Plans of Subsidiaries and Affiliated Companies

For the year ended December 31, 2021, we did not have any material acquisitions or disposals of subsidiaries or affiliated companies.

Gearing Ratio

As of December 31, 2021, we did not have any net debt, as the Group's cash and cash equivalents were much more than its interest-bearing borrowings. As such, the gearing ratio (calculated as net debt divided by total equity plus net debt of the Group) did not apply to us.

Pledge of Assets

As at December 31, 2021, the Group's interest-bearing bank loans amounted to RMB10,000,000, which is a bank credit loan without mortgage and guarantee.

Foreign Exchange Risk Management

We mainly carry out our operations in the PRC with most transactions settled in Renminbi. As of December 31, 2021, our cash and cash equivalent balance was denominated in Renminbi. Our Management considers that the principal business is not exposed to significant foreign exchange risk as there are no significant financial assets or liabilities denominated in the currencies other than the respective functional currencies of our entities, but some of our funding raised in Hong Kong is subject to foreign exchange risk.

Future Plans for Material Investments and Capital Assets

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





MANAGEMENT DISCUSSION AND ANALYSIS

RELATIONSHIP WITH STAKEHOLDERS

Employee and Remuneration Policy

As of December 31, 2021, we had 702 full-time employees, all of whom were based in the PRC.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive remuneration packages, which generally include basic wages, variable wages, bonuses and other benefits.

We participate in employee benefit plans mandated by the PRC government, including basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, and unemployment insurance and housing provident fund scheme. We must contribute to employee benefit plans based on specified percentages of the total remuneration of our employees up to a maximum amount specified by local governmental authorities.

Customers

Our customers primarily include digital goods vendors, from whom we earn commissions on facilitating sales of their products through our platform. Our customers also include digital goods vendors and digital goods sales channels that use our ancillary value-added services for which we charge fees on a case-by-case basis.

Suppliers

Our suppliers primarily include (i) digital goods sales channels, who charge us commissions; and (ii) data storage and server hosting providers. We select suppliers based on a number of factors, including their user base, market share and reputation.



Biographies of Directors and senior management of the Company are set out as follows:

DIRECTORS

Executive Directors

Mr. Fu Xi, 33, is the Chairman, executive Director and chief executive officer of the Company. He was appointed as an executive Director of the Company on October 31, 2019 upon the incorporation of the Company. Mr. Fu is also the chairman of the Nomination Committee of the Board. Mr. Fu is responsible for the Company's strategies, corporate culture and oversees the senior management. He has held directorships in the Group's various subsidiaries, including as the executive director of Wuhan Fulu since March 2009, Xinjiang Fulu since December 2016, Tibet Fulu since December 2016, Wuhan Lishuo since January 2017, Hubei Kejin since May 2017, Xinjiang Huluwa since February 2019 and Tibet Huluwa since May 2019.

Mr. Fu has over 10 years of management and operation experience in the IT industry.

Mr. Fu graduated from Zhongnan University of Economics and Law (中南財經政法大學) in Wuhan, PRC in June 2009 and majored in computer information management.

Mr. Zhang Yuguo, 35, is an executive Director of the Company and the senior vice president of the Group. He joined the Group as the vice president in May 2009 and was appointed as an executive Director of the Company on October 31, 2019 upon the incorporation of the Company. He has served as the executive director and general manager of Kashgar Yiqiwan and Wuhan Yilu since March 2017 and August 2019, respectively. Mr. Zhang is mainly responsible for managing the open platform business division. In particular, he is in charge of the operation of the Group's Fulu Open Platform as well as the operation and development of the Group's e-commerce business relating to telecommunications, online games, leisure and entertainment, lifestyle services and membership cards and coupons.

Mr. Zhang has over 10 years of management and operation experience in the IT industry.





DIRECTORS AND SENIOR MANAGEMENT

Mr. Shui Yingyu, 35, is an executive Director of the Company and the senior vice president of the Group. He was appointed as an executive Director of the Company on October 31, 2019 upon the incorporation of the Company. He has served as the deputy general manager in charge of managing accounting and finance since November 2010. He is responsible for risk control and management as well as daily business operation of the Group.

Mr. Shui has over 10 years of management and operation experience in the internet media operation industry. Mr. Shui founded Hefei Sanqi Media Co., Ltd. (合肥三啟傳媒有限公司) (“**Hefei Sanqi**”) in 2009 at which he served as a director from October 2009 to October 2010, responsible for the overall business operation and management of the company. Hefei Sanqi is a limited liability company established in the PRC on October 30, 2009, and was primarily engaged in the design and production of advertising and website. Hefei Sanqi was voluntarily dissolved on December 22, 2017.

Mr. Shui received his bachelor’s degree in administrative management from Anhui University (安徽大學) in Anhui Province, PRC in July 2012.

Mr. Zhao Bihao, 41, is an executive Director of the Company and the senior vice president of the Group. He was appointed as an executive Director of the Company on October 31, 2019. He was appointed as the senior vice president of the Group in April 2013 and is primarily responsible for the branding, marketing, as well as investment business of the Group.

Mr. Zhao has over 15 years of management and operation experience in market operations and promotion. From October 2005 to March 2013, Mr. Zhao was a promotion director of Perfect World Co., Ltd. (完美世界股份有限公司) (“**Perfect World**”, a company listed on the Shenzhen Stock Exchange with the stock code of 002624, primarily engaging in development, production and marketing of online games, TV shows and movies), responsible for promoting and marketing.

Mr. Zhao received his associate degree in computer science from Wuhan University of Science and Technology (武漢科技大學) in Wuhan, Hubei Province, the PRC in July 2002.



Mr. Mao Feng, 43, is the executive Director of the Company, the chief financial officer and vice president of the Group. He was appointed as an executive Director of the Company on January 11, 2020. He has been responsible for the Group's financial management, financing and investor relations since he joined the Group in July 2018.

Mr. Mao has nearly 20 years of experience in accounting and finance. Prior to joining the Group, Mr. Mao was a partner of Asia Pacific CPA (Group) Co., Ltd. (亞太(集團)會計師事務所) from March 2015 to June 2018. From December 2013 to March 2015, he worked at Ruihua Certified Public Accountants (瑞華會計師事務所). From August 2010 to January 2013, Mr. Mao served as the vice general manager in Shanghai Chengqi Business Consulting Co., Ltd (上海誠齊商務諮詢有限公司). From September 2006 to December 2008, he served as the finance manager of Shanghai Maoyuan Garment Co., Ltd. (上海懋源製衣有限公司). From July 2001 to September 2006, he worked at Deloitte Touche Tohmatsu Hua Yong Certified Public Accountants LLP (德勤華永會計師事務所).

Mr. Mao received his bachelor's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, PRC in July 2001.

Independent non-executive Directors

Mr. Li Wai Chung, 44, is an independent non-executive Director and also the chairman of the Audit Committee of the Board. He was appointed as an independent non-executive Director on January 11, 2020.

Mr. Li has been an independent non-executive director and the chairman of the audit committee of the board of directors of Taizhou Water Group Co., Ltd. (台州市水務集團股份有限公司) (a company listed on the Stock Exchange with the stock code of 1542) since June 2019.

Mr. Li has served as an executive director and a chief financial officer of Tyfon Culture Holdings Limited (泰豐文化控股有限公司) since June 2020. He has also served as the general manager of Shenzhen Youxin Consulting Management Co., Ltd. (深圳友信顧問管理有限公司) from October 2017 to June 2020. From October 2017 to October 2018, he worked at Shanghai Yongxuan Venture Capital Management Co., Ltd. (上海永宣創業投資管理有限公司). From August 2016 to September 2017, he worked at Lens International (HK) Limited (藍思國際(香港)有限公司), the holding company of Lens Technology Co., Ltd (藍思科技股份有限公司) (a company listed on the Shenzhen Stock Exchange with the stock code of 300433), as the general manager of investment department, mainly responsible for managing investment projects of the company and formulating investment strategies. From April 2006 to July 2016, he worked at Shanghai Prime Machinery Co., Ltd. (上海集優機械股份有限公司) (a company once listed on the Stock Exchange from April 2006 to January 2021, now as the subsidiary of Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a company listed on the Stock Exchange with the stock code of 2727) as the vice president, secretary of the board, assistant president, company secretary and qualified accountant. He was an audit manager of Deloitte China (including Deloitte Touche Tohmatsu Hua Yong CPA and Hong Kong Deloitte Touche Tohmatsu) from October 2005 to April 2006.





DIRECTORS AND SENIOR MANAGEMENT

Mr. Li received a bachelor's degree in business administration, majoring in accounting and finance, from University of Hong Kong in November 2000 and a master's degree in business administration from University of Hong Kong in November 2013. Mr. Li is a fellow member of the Association of Chartered Certified Accountant. He is also a member of The Hong Kong Institute of Certified Public Accountants and holds the chartered accountant qualifications from the Institute of Chartered Accountants in England and Wales.

Ms. Wang Yuyun (王雨雲) (alias Wang Yuyun (王雨蘊)), 44, is an independent non-executive Director and also the chairman of the Remuneration Committee of the Board. She was appointed as an independent non-executive Director on January 11, 2020.

Ms. Wang joined Perfect World in December 2004 when it was founded. From December 2004 to January 2008, she worked at Perfect World (Beijing) Network Technology Co., Ltd. (完美世界(北京)網絡技術有限公司) as the director of marketing center. From January 2008 to September 2014, she served as the vice president and the official spokesperson of Perfect World. Concurrently, she has been the legal representative and chairman of Perfect World Education Investment Co., Ltd. (完美世界教育投資公司) ("**Perfect World Education**") since February 2014. She has served as the senior vice president of Perfect World as well as the legal representative and chairman of Perfect World Education and Perfect World Education Technology (Beijing) Co., Ltd (完美世界教育科技(北京)有限公司), respectively, since September 2014. Currently, her main responsibilities at Perfect World include managing government relations and public affairs, brand building and promotion, and strategic cooperation management.

Ms. Wang received a doctor's degree in business administration from University of Nice in France in April 2018 and an EMBA degree from National University of Singapore in Singapore in June 2012.

Mr. Wong Sincere, 57, is an independent non-executive Director. He was appointed as an independent non-executive Director on January 11, 2020.

Mr. Wong has served as an independent non-executive director of Bank of Gansu Co., Ltd (甘肅銀行股份有限公司) (a company listed on the Stock Exchange with the stock code of 2139), U Banquet Group Holding Limited (譽宴集團控股有限公司) (now known as Net-a-Go Technology Company Limited (網譽科技有限公司), a company listed on the Stock Exchange with the stock code of 1483) and Jinmao property services Co., Ltd. (a company listed on the Stock Exchange with the stock code of 00816), since August 2017, and September 2018 and March 2022, respectively.



Mr. Wong has been the founding partner of Wong Heung Sum & Lawyers (黃香沈律師事務所) (formerly known as Sincere Wong & Co. (黃誠思律師事務所)) since May 2016. From January 2019 to March 2020, Mr. Wong served as a non-executive director of MOS House Group Limited (a company listed on the Stock Exchange with the stock code of 1653). From August 2011 to April 2016, Mr. Wong worked at the Listing Department of Hong Kong Exchanges and Clearing Limited (the “**Hong Kong Exchange**”), and he served as a vice president at the time of his departure from the Hong Kong Exchange, primarily responsible for reviewing IPO applications and making recommendations to the Listing Committee. From July 2010 to May 2011, he served as the vice president of legal department and company secretary of Sateri Holdings Limited (賽得利控股有限公司) (subsequently renamed Bracell Limited, a company listed on the Stock Exchange with the stock code of 1768). Bracell Limited was delisted by way of privatization in October 2016. From November 2006 to June 2010, he served as the chief legal officer of SOCAM Development Limited (瑞安建業有限公司), a company listed on the Stock Exchange with the stock code of 983). From February 2005 to November 2006, he served as the in-house legal counsel of China Resources Enterprise, Limited (華潤創業有限公司) (now known as China Resources Beer (Holdings) Company Limited (華潤啤酒(控股)有限公司), a company listed on the Stock Exchange with the stock code of 291). From September 1996 to January 2005, he served as the in-house legal counsel of Hutchison Whampoa Group (和記黃埔集團).

Mr. Wong received his bachelor’s degree in social science from The Chinese University of Hong Kong in December 1986. Mr. Wong passed the Common Professional Examination at Wolverhampton Polytechnic (now known as University of Wolverhampton) in July 1990, and the Solicitors’ Final Examination of the Law Society of England and Wales with first class honours in October 1991. Subsequently, he has been a solicitor of the High Court of Hong Kong in October 1993 and a solicitor of the Supreme Court of England & Wales in February 1994, respectively.

SENIOR MANAGEMENT

The senior management team of the Group, in addition to the executive Directors listed above, has the following members:

Mr. Chen Tianjun, 39, has been the vice president of the Group since April 2017, responsible for the new business development of the business department and cooperation with various major platforms.

Prior to joining the Group, Mr. Chen has been running his own business through three companies, namely Shanghai Fire Beast Network Technology Co., Ltd. (上海火獸網絡科技有限公司) since August 2014, Hangzhou Yingxiang Network Technology Co., Ltd. (杭州鷹翔網絡科技有限公司) since April 2016 and Hangzhou Cool Land Magic Technology Co., Ltd. (杭州酷境魔視科技有限公司) since August 2016. He served as the legal representative and chief executive officer of these three companies. From May 2008 to August 2016, he served as the manager of Taobao (China) Software Co., Ltd. (淘寶(中國)軟件有限公司), responsible for the virtual product business. From November 2002 to March 2003 and from August 2003 to May 2004, he worked at Shanghai Shengda Network Development Co., Ltd. (上海盛大網絡發展有限公司), a company previously listed on Nasdaq and delisted from Nasdaq in 2012). From April 2003 to July 2003 and from June 2004 to November 2007, he worked at Shengqu Information Technology (Shanghai) Co., Ltd. (盛趣信息技術(上海)有限公司).





DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen graduated from Yancheng Institute of Technology (鹽城工學院) in Yancheng, the PRC in July 2002. In January 2006, he received his diploma degree in administrative management from Shanghai TV University (上海電視大學) through long-distance and part-time study.

Mr. Xu Jian, 32, has been the vice president of the Group since January 2018, responsible for business development and operation of products relating to mobile games, gaming transactions and gaming services. Mr. Xu joined the Group as a project manager in September 2015. Mr. Xu has also been an executive Director of Wuhan Yiqiyou since June 2017.

Mr. Xu received his bachelor's degree in computer science from China University of Geosciences (中國地質大學) in Wuhan, the PRC in July 2015.

Mr. Ren Wei, 45, has been the chief technology officer of the Group since November 2019, responsible for technical reserves, development and implementation of technological strategies, and management of research team of the Group. He joined the Group in November 2011 as the manager of our R&D department.

Prior to joining the Group, Mr. Ren has over 11 years of working experience in computer technology companies, including: Wuhan Chaojiwanjia Technology Co., Ltd. (武漢超級玩家科技股份有限公司)(formerly known as Wuhan Chaowan Online Technology Co., Ltd. (武漢超玩在線科技有限公司)), a company primarily engaged in the research and development of online games, from February 2009 to September 2011; Baofuda Technology (Wuhan) Co., Ltd. (保富達科技(武漢)有限公司), a company primarily involved in the development of computer software, from March 2008 to February 2009; Shenzhen Huolitianhui Technology Co., Ltd. (深圳市活力天匯科技股份有限公司), a company primarily involved in internet retail services, from September 2006 to March 2008; and Wuhan Huanda Technology Development Co., Ltd. (武漢市環大科技開發有限公司), a company primarily involved in computer engineering, bioengineering and chemical engineering, from August 2001 to August 2006.

Mr. Ren received his bachelor's degree in computer software from Hubei University (湖北大學) in Wuhan, the PRC in July 1998.

Mr. Ding Zhigang, aged 40, has been the vice president of the Group since November 2019 and is responsible for managing the Group's Open Platform Business division — the Customer Development Centre, and focuses on the development and service of To-B customers.

Prior to joining the Group, Mr. Ding had served four companies. From March 2019 to October 2019, he held the position of chief operating officer at Basestonedata (小象優品), a leading phase e-commerce company, where he was in charge of the work related to the group's operation. From February 2012 to January 2019, he held the position of data analysis specialist and senior operations specialist at Alipay, focusing on membership operations. From May 2010 to January 2012, he held the position of senior consultant at Hua Analysis Technology (shanghai) Co., Ltd. (華院分析技術(上海)有限公司), a leading domestic consulting company specializing in the telecommunications industry. From July 2007 to May 2010, he served as a senior marketing analysis manager at China Mobile Communications Group Co., Ltd. (中國移動通信集團有限公司), Guangdong Branch.

DIRECTORS AND SENIOR MANAGEMENT



Mr. Ding graduated from Huazhong University of Science and Technology (華中科技大學) in Wuhan, the PRC, with a Master's degree in Economics in July 2007.

Mr. Huang Tao, aged 35, joined the Group in August 2018 and is responsible for the Company's upstream brand cooperation and strategic cooperation with e-commerce platforms. In 2021, he set up the Group's Open Platform Business division — the Supply Chain Centre, and was appointed as the person in charge of this Centre, focusing on Fulu's upstream supply chain construction.

Prior to joining the Group, from May 2016 to July 2018, Mr. Huang served at Wuhan Yongle Yunshang E-Commerce Company Limited (武漢永樂雲商電子商務有限公司) as the vice president of the company, responsible for managing the communications business division and developing digital virtual services of operators. From September 2008 to January 2016, he served at Beijing Gaoyang Jiexun Information Technology Company Limited (北京高陽捷迅信息技術有限公司) (a company which was owned by Gohigh (高鴻股份), a listed on the Shenzhen Stock Exchange (Stock Code: 000851) in 2013), where he was engaged in marketing-related business. Before his departure, he was the executive deputy general manager of the Regional Development Centre, responsible for managing a nationwide marketing team of about 300 people, building an offline virtual service scenes and launching an offline digital virtual convenience platform.

Mr. Huang graduated from Wuhan Polytechnic (武漢職業技術學院) in Wuhan, the PRC in 2007, majoring in computer software and information management.

Ms. Yu Suhua, aged 38, has been the vice president of human resources of the Group since October 2021 and is responsible for the strategic planning and implementation of human resources of the Group. Ms. Yu joined the Group in March 2018 as senior director of human resources.

Prior to joining the Group, Ms. Yu had nearly 11 years of working experience in companies including: Guangdong Nanyue Bank (廣東南粵銀行), Changsha Branch (from March 2015 to March 2016), Ping An Puhui (平安普惠), Hunan Branch (from July 2009 to March 2015), and Shanghai Asia Business Development Co., Ltd. (上海亞商發展集團有限公司) (from July 2007 to June 2009).

Ms. Yu graduated from Shanghai Maritime University (上海海事大學) in Shanghai, the PRC with a Master's degree in Economics in July 2007 and graduated from Northwestern Polytechnic University (西北工業大學) in Xi'an, the PRC with a Bachelor's degree in Management in July 2005.





DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

THE LISTING

The Company is a limited liability company incorporated in the Cayman Islands on October 31, 2019. The Shares of the Company were listed on the Stock Exchange on September 18, 2020. The offer price has been determined at HK\$8.90 per offer share (exclusive of brokerage of 1%, the Securities and Futures Commission transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%). The Global Offering of the Company constitutes 100,000,000 Shares.

ISSUE OF NEW SHARES

The Company has granted 3,315,928 new Shares of the Company to RSU Nominee pursuant to the general mandate of 2021 Share Award Scheme, the allotment and issue of which was completed on September 10, 2021.

As of December 31, 2021, the Company had 403,315,928 issued shares.

PRINCIPAL BUSINESS

The Company is a leading third-party digital goods and services platform operator in China. The platform of the Company connects digital goods vendors and digital goods sales channels. We generate revenues from providing “business to business” (B2B) services to digital goods vendors and sales channels, including (i) facilitating digital goods transactions between digital goods vendors and digital goods sales channels; and (ii) providing value-added services such as operating online stores for digital goods vendors. Businesses of major subsidiaries are set out in Note 1 to the financial statements of this annual report.

RESULTS

Results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of comprehensive income of this annual report.



DIVIDEND POLICIES AND FINAL DIVIDENDS

The Company is a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from its subsidiaries. PRC laws require that dividends may only be paid out of the after-tax profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including the IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises' registered capital, if any, to fund its statutory common reserves. The foreign-owned enterprise may also, at its discretion, allocate a portion of its after-tax profits based on PRC accounting principles to a discretionary reserve fund. These statutory common reserve funds and discretionary funds are not available for distribution as cash dividends. Dividend distribution to Shareholders is recognized as a liability in the period in which the dividends are approved by Shareholders or Directors, where appropriate. Under Cayman Islands law, dividends may be distributed from (a) profits (current period or retained) or (b) share premium. The Articles of Association has not determined the dividend distribution ratio.

The Board is responsible for submitting proposals for dividend payments to the Shareholders' general meeting for approval. The determination of whether to pay a dividend and in which amount is based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions and other factors that the Board deems relevant.

After due consideration of Shareholders' as well as the Company's long-term interests, the Board recommended the final dividend of HK\$0.176 per Share for the year ended December 31, 2021, which will be paid in Hong Kong dollars, subject to the approval of Shareholders at the Company's forthcoming AGM. The final dividend, if approved by the Shareholders at the forthcoming AGM, will be paid on or before Wednesday, June 8, 2022 to Shareholders whose name appear on the register of members of the Company on Friday, May 27, 2022.

BUSINESS REVIEW

The business review and performance analysis of the Group for the Reporting Period and the indication of likely future development in the Company's business are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" of this annual report.

The principal risks and uncertainties faced by the Company are set out in the "Corporate Governance Report" of this annual report. The analysis using financial key performance indicators are set out in the "Financial Summary" of this annual report. The Company's relationship with its stakeholders is set out in the "Management Discussion and Analysis" of this annual report.



ENVIRONMENTAL PERFORMANCE AND POLICIES

The Company attaches great importance to environmental protection and resource conservation, and continuously pays attention to the impact of its business operations on the environment. The Company is committed to maintaining the common development of economy, environment and society, and promoting awareness of environmental protection and resource conservation in its daily operations. The Group had adopted various electricity-saving, water-saving and carbon emission reduction management measures, including management over garbage classification, air conditioning temperature setting, paperless office construction and timely maintenance of water equipment, thereby improving efficiency and minimizing resource consumption. The Company is in compliance with relevant environmental laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》), Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and is not aware of any environmental-related violations during the Relevant Period.

For details of the Company's environmental policies and performance, the compliance with the relevant laws and regulations and the relations with its employees, suppliers and customers, please refer to the Environmental, Social and Governance Report of the Company for the year ended December 31, 2021 to be published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company's own website (<http://www.fulu.com>) according to the Listing Rules.

USE OF NET PROCEEDS FROM THE LISTING

The net proceeds from the Listing are approximately HK\$803.42 million, net of underwriting fees, commissions and related total expenses paid and payable in connection thereto.

During the Reporting Period, the Company gradually utilized the net proceeds for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The following table sets forth the use of the net proceeds and fund balances as at December 31, 2021:

No. Use	The net proceeds (HK\$ million)	Utilized amount from the Listing	Unutilized amount as of	Expected timeline of application of remaining net proceeds
		Date up to December 31, 2021 (HK\$ million)	December 31, 2021 (HK\$ million)	
1. To facilitate digital goods transactions for more digital goods vendors and increase the varieties of digital goods transactions we facilitate;	241.03 (representing approximately 30% of total net proceeds)	241.03	–	N/A



No. Use	The net proceeds (HK\$ million)	Utilized amount from the Listing Date up to December 31, 2021 (HK\$ million)	Unutilized amount as of December 31, 2021 (HK\$ million)	Expected timeline of application of remaining net proceeds
2. To increase the number of our digital goods sales channel partners;	160.68 (representing approximately 20% of total net proceeds)	160.68	–	N/A
3. To develop our value-added services, such as membership management and interactive advertising services, virtual employee benefit services for enterprise customers, game leveling and companion services and professional game account leasing services;	160.68 (representing approximately 20% of total net proceeds)	160.68	–	N/A
4. For potential acquisitions of businesses and assets complementary to our business, including companies in games-related industries; and	160.68 (representing approximately 20% of total net proceeds)	–	160.68	on or before December 31, 2023
5. To fund working capital and other general corporate purposes	80.35 (representing approximately 10% of total net proceeds)	80.35	–	N/A
	803.42	642.74	160.68	

As a wholly foreign-owned enterprise, we will need to make capital contributions and loans to our PRC subsidiaries or through loans to our Consolidated Affiliated Entities such that the net proceeds of the Listing can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under PRC laws and regulations. There are no costs associated with registering loans or capital contributions with relevant PRC authorities, other than nominal processing charges. Under PRC laws and regulations, the PRC governmental authorities are required to process such approvals, filings or registrations or deny our application within a prescribed period, such period generally shall be less than 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use proceeds from the Global Offering, in each case on a timely basis, or at all. As PRC regulation of loans and direct investment by wholly foreign-owned enterprise to PRC entities may delay or prevent us from using the proceeds of the Listing to make loans or additional capital contributions to our PRC Holdcos or Consolidated Affiliated Entities, this could materially and adversely affect our liquidity and our ability to fund and expand our business.



MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2021, top five customers of the Group accounted for approximately 48.8% (2020: 54.4%) of total revenue of the Group with the largest customer accounted for approximately 18.5% (2020: 18.0%) of total revenue of the Group.

Major Suppliers

For the year ended December 31, 2021, top five suppliers of the Group accounted for approximately 46.1% (2020: 52.2%) of total purchases of the Group with the largest supplier accounted for approximately 16.6% (2020: 30.0%) of total purchases of the Group.

To the best of the Directors' knowledge, for the year ended December 31, 2021 and as at the date of this annual report, none of the Directors and their respective associates or any Shareholders who hold more than 5% of the issued share capital of the Company are interested in our major customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the Reporting Period are set out in Note 13 to the financial statements of this annual report.

SHARE CAPITAL

Details of changes in share capital of the Group during the Reporting Period are set out in Note 26 to the financial statements of this annual report.

RESERVES

Details of changes in reserves of the Group during the Reporting Period are set out on page 86 to page 87 of the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As of December 31, 2021, distributable reserves of the Group amounted to approximately RMB625,329,000.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as of December 31, 2021 are set out in Note 25 to the financial statements of this annual report. The term of the bank loan represents current loans. As of December 31, 2021, the total credit granted by the bank amounted to RMB170,000,000 and the residual credit line amounted to RMB160,000,000. The Group did not utilize financial instruments for hedging purposes during the Reporting Period.



DIRECTORS

The Directors during the Reporting Period include:

Executive Directors

Mr. Fu Xi (符熙) (*Chairman and chief executive officer*)
Mr. Zhang Yuguo (張雨果)
Mr. Shui Yingyu (水英聿)
Mr. Zhao Bihao (趙筆浩)
Mr. Mao Feng (茅峰)

Independent non-executive Directors

Mr. Li Wai Chung (李偉忠)
Ms. Wang Yuyun (王雨雲) (alias Wang Yuyun (王雨蘊))
Mr. Wong Sincere (黃誠思)

In accordance with Article 109 of the Articles of Association, Mr. Zhang Yuguo, Mr. Li Wai Chung and Mr. Wong Sincere shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM. Details of the Directors to be re-elected at the AGM are set out in the circular to be dispatched to the Shareholders before the AGM.

DIRECTORS AND SENIOR MANAGEMENT

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

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company considers such Directors to be independent during the Reporting Period.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company. Pursuant to this contract, they agreed to act as executive Directors for an initial term of three years with effect from the date of approval by the Board of the appointment or until the third annual general meeting of the Company since the Listing Date (whichever is sooner). Either party has the right to give not less than three months' written notice to terminate the contract. No annual director's fees are payable to the executive Directors under the current arrangement.

The Board does not have non-executive Directors.





DIRECTORS' REPORT

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

There are no service contracts entered by the Directors which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

Details of Directors' remuneration during the Reporting Period are set out in Note 8 to the financial statements of this annual report.

DIRECTORS' MATERIAL INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, none of the Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REMUNERATION POLICY AND RETIREMENT AND EMPLOYEE BENEFITS SCHEME

A Remuneration Committee was set up by the Company for reviewing the Group's remuneration policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive remuneration packages, which generally include basic wages, variable wages, bonuses and other benefits.



We participate in employee benefit plans mandated by the PRC government, including basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, unemployment insurance and housing provident fund scheme. We must contribute to employee benefit plans based on specified percentages of the total remuneration of our employees up to a maximum amount specified by local governmental authorities.

Details of the emoluments of the Directors and the five highest paid individuals during the Reporting Period are set out in Note 8 and Note 9, respectively, to the financial statements of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of December 31, 2021, interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

(i) Interests in Shares

Name of Shareholder	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Fu Xi (符熙)	Interest of controlled corporations ⁽¹⁾	Long position	141,094,800	34.98
	Trust beneficiary and founder ⁽²⁾	Long position	23,822,050	5.91
	Total interest of Mr. Fu Xi		164,916,850	40.89
Mr. Zhang Yuguo (張雨果)	Interest of controlled corporations ⁽³⁾	Long position	45,999,600	11.41
	Beneficial interest	Long position	1,238,466	0.31
	Total interest of Mr. Zhang Yuguo		47,238,066	11.71
Mr. Shui Yingyu (水英聿)	Interest of controlled corporations ⁽⁴⁾	Long position	20,163,000	5.00
	Beneficial interest	Long position	140,956	0.03
	Total interest of Mr. Shui Yingyu		20,303,956	5.03
Mr. Zhao Bihao (趙筆浩)	Interest of controlled corporations ⁽⁵⁾	Long position	16,828,800	4.17
	Beneficial interest	Long position	272,533	0.07
	Total interest of Mr. Zhao Bihao		17,101,333	4.24
Mr. Mao Feng (茅峰)	Interest of controlled corporations ⁽⁶⁾	Long position	4,476,600	1.11



DIRECTORS' REPORT

Notes:

- (1) Mr. Fu Xi holds the entire share capital of FuXi Limited, which in turn directly hold 141,094,800 Shares. Mr. Fu Xi is the sole shareholder of FuXi Limited. Under the SFO, Mr. Fu Xi is deemed to be interested in the Shares held by FuXi Limited.
- (2) Fuze Holdings Limited holds 99.99% and 94.10% of the equity interests in Fuxu Holdings and Fuzhi Holdings, respectively, which in turn hold 5,822,050 and 18,000,000 Shares, respectively. Under the SFO, Fuze Holdings Limited is deemed to be interested in the 23,822,050 Shares held by Fuxu Holdings and Fuzhi Holdings, while the entire interest in the 23,822,050 Shares is held by Fuze Holdings Limited through a trust established by Mr. Fu Xi (as principal) in favour of Mr. Fu Xi and his family. Under the SFO, Mr. Fu Xi is deemed to be interested in the Shares held by Fuze Holdings Limited.
- (3) Mr. Zhang Yuguo holds the entire share capital of Zhangyuguo Holdings, which in turn directly holds 45,999,600 Shares. Under the SFO, Mr. Zhang Yuguo is deemed to be interested in the Shares held by Zhangyuguo Holdings.
- (4) Mr. Shui Yingyu holds the entire share capital of Shuiyingyu Holdings, which in turn directly holds 20,163,000 Shares. Under the SFO, Mr. Shui Yingyu is deemed to be interested in the Shares held by Shuiyingyu Holdings.
- (5) Mr. Zhao Bihao holds the entire share capital of Zhaobihao Holdings, which in turn directly holds 16,828,800 Shares. Under the SFO, Mr. Zhao Bihao is deemed to be interested in the Shares held by Zhaobihao Holdings.
- (6) Mr. Mao Feng holds the entire share capital of Maofeng Holdings Limited, which in turn directly holds 4,476,600 Shares. Under the SFO, Mr. Mao Feng is deemed to be interested in the Shares held by Maofeng Holdings Limited.

(ii) Interests in Associated Corporations

Name of Shareholder	Capacity	Associated corporations	Nature of interest	Amount of	Percentage of
				registered capital (RMB)	shareholding in the associated corporation (%)
Mr. Fu Xi (符熙)	Beneficial interest	Wuhan Fulu	Long position	9,850,000	50.03
	Interest of controlled corporations ⁽¹⁾	Wuhan Fulu	Long position	4,759,091	24.17
	Total interest of Mr. Fu Xi in Wuhan Fulu			14,609,091	74.20
Mr. Zhang Yuguo (張雨果)	Beneficial interest	Wuhan Fulu	Long position	2,968,324	15.08
	Beneficial interest ⁽²⁾	Kashgar Yiqiwan	Long position	9,900,000	99.00
Mr. Shui Yingyu (水英華)	Beneficial interest	Wuhan Fulu	Long position	1,384,998	7.03
Mr. Zhao Bihao (趙筆浩)	Beneficial interest	Wuhan Fulu	Long position	726,522	3.69

Notes:

- (1) Mr. Fu Xi is the general partner of Tibet Fuxu and Tibet Fulong, which in turn hold 12.72% and 11.45% of the equity interests in Wuhan Fulu, respectively. Under the SFO, Mr. Fu Xi is deemed to be interested in the 24.17% together held by Tibet Fuxu and Tibet Fulong in Wuhan Fulu.
- (2) Mr. Zhang Yuguo holds 99% equity interest in Kashgar Yiqiwan as registered shareholder of Kashgar Yiqiwan as designated by WFOE.



Save as disclosed above, as of December 31, 2021, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which 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 were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As of December 31, 2021, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity	Nature of interest	Number of underlying Shares ⁽⁵⁾	Approximate percentage of the issued share capital of the Company (%)
FuXi Limited ⁽¹⁾	Beneficial interest	Long position	141,094,800	34.98
Zhangyuguo Holdings ⁽²⁾	Beneficial interest	Long position	45,999,600	11.41
Shuiyingyu Holdings ⁽³⁾	Beneficial interest	Long position	20,163,000	5.00
Luzhi Holdings ⁽⁴⁾	Beneficial interest	Long position	38,820,300	9.63
Mr. Xu Jian (徐健) ⁽⁴⁾	Beneficial interest	Long position	1,780,468	0.44
	Interest of controlled corporations	Long position	38,820,300	9.63
	Other (Unlisted derivatives — Physically settle)	Long position	46,404	0.01
Total interest of Mr. Xu Jian			40,647,172	10.08

Notes:

- Mr. Fu Xi holds the entire share capital of FuXi Limited, which in turn directly hold 141,094,800 Shares. Mr. Fu Xi is the sole shareholder of FuXi Limited. Under the SFO, Mr. Fu Xi is deemed to be interested in the Shares held by FuXi Limited.
- Mr. Zhang Yuguo holds the entire share capital of Zhangyuguo Holdings. Under the SFO, Mr. Zhang Yuguo is deemed to be interested in the Shares held by Zhangyuguo Holdings.
- Mr. Shui Yingyu holds the entire share capital of Shuiyingyu Holdings. Under the SFO, Mr. Shui Yingyu is deemed to be interested in the Shares held by Shuiyingyu Holdings.
- Luzhi Holdings is owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14%, 11.00% and 4.06% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao, Mr. Chen Tianjun and Mr. Tian Xuan, respectively. Under the SFO, Mr. Xu Jian holds 34.36% of the total issued share capital of Luzhi Holdings, and is therefore deemed to be interested in the Shares held by Luzhi Holdings. In addition, Mr. Xu Jian also holds 1,780,468 Shares as a beneficial owner and 46,404 RSUs.



- (5) According to Section 336 of the SFO, the Shareholders of the Company are required to file disclosure of interest forms when certain criteria are fulfilled. When the shareholdings of the Shareholders in the Company change, it is not necessary for the Shareholders to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, the latest shareholdings of the Shareholders in the Company may be different from the shareholdings in the disclosure of interest forms filed with the Stock Exchange.

Save as disclosed above, as of December 31, 2021, the Company is not aware of any person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE INCENTIVE SCHEME

The Company adopted a restricted share unit scheme (the “**Scheme**”) on August 19, 2021. The purpose and the principal terms of the Scheme are as below.

Purpose

The purpose of the Scheme is to recognize and reward eligible persons for their contribution to the Group, to attract best available personnel, and to provide additional incentives to them so as to align the interests of these eligible persons with those of the Group and to further promote the success of the Group’s business.

Participants in the Scheme

Persons eligible to receive RSUs under the Scheme include employees, Directors (including executive Directors, non-executive Directors and independent non-executive Directors), officers, consultants, advisors, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners or service providers of any member of the Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) whom the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group and is eligible to receive an award.

On and subject to the terms of the Scheme, the Board or its delegate(s), in its absolute discretion, shall be entitled at any time during the term of the Scheme to make a grant to any participant.

Administration

The Scheme shall be subject to the administration of the Board. The Board shall have the sole and absolute right to:

- (i) interpret and construe the provisions of the Scheme;
- (ii) determine the persons who will be granted awards under the Scheme, the terms and conditions on which awards are granted and when the RSUs granted pursuant to the Scheme may vest;
- (iii) make such appropriate and equitable adjustments to the terms of the awards granted under the Scheme as it deems necessary; and
- (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the Scheme.



The Board may by resolution delegate any or all of its powers in the administration of the Scheme to the administration committee or any other committee as authorized by the Board for such purpose. The Board or its delegate(s) may also appoint one or more independent third party contractors to assist in the administration of the Scheme as they think fit.

The Board may establish one or more separate programs under the Scheme for the purpose of issuing particular forms of awards to one or more classes of grantees.

Term

Subject to early termination by the Board or its delegate(s), the Scheme shall be valid and effective for ten (10) years commencing on the adoption date.

Maximum Number of Shares Pursuant to RSUs

Unless otherwise duly approved by the Shareholders, the total number of Shares underlying the Scheme shall not exceed 20,000,000 Shares (excluding RSUs that have lapsed, been cancelled or forfeited in accordance with the Scheme Rules) subject to an annual limit of 3% of the total number of issued Shares of the Company at the relevant time.

Appointment of the RSU Trustee

The Company may, at its sole discretion, establish a Trust in connection with the Scheme and appoint a Trustee prior to the grant of any award by the Board or its delegate(s), which may vest (a) in the form of the award Shares; or (b) in the form of cash equivalent to the actual selling price of the award Shares in cash in accordance with the Scheme.

The Company shall provide sufficient funds to the Trustee by whatever means as the Board may in its absolute discretion determine to enable the Trustee to satisfy its obligations in connection with the administration and vesting of RSUs granted pursuant to the Scheme.

If a Trust has been established for the purposes of the Scheme and if so required by the Company, the Company shall, as soon as reasonably practicable, (i) issue and allot the Shares to the Trustee under general or specific mandates sought from the Shareholders during the general meeting and/or (ii) transfer to the Trustee the necessary funds and instruct the Trustee to acquire the Shares through on-market transactions at the prevailing market price, so as to satisfy the awards.





DIRECTORS' REPORT

Outstanding RSUs granted Pursuant to the Scheme

The Company has granted 3,315,928 RSUs as of December 31, 2021. The following table sets forth details of RSUs granted to senior management and other employees pursuant to the Scheme.

Name	Date of grant	Vesting period	Restricted	Restricted	Restricted	Number of
			Shares granted during the Reporting Period	Shares vested during the Reporting Period	Shares lapsed during the Reporting Period	Restricted Shares outstanding as of December 31, 2021
			(units)	(units)	(units)	(units)
Senior management	September 1, 2021	September 19, 2021 to July 10, 2025	544,567	196,382	0	348,185
Other employees	September 1, 2021	September 19, 2021 to July 10, 2025	2,771,361	1,014,848	1,409	1,755,104
Total			3,315,928	1,211,230	1,409	2,103,289

MATERIAL LITIGATION

From time to time, the Group may be subject to legal proceedings and claims that arise in the ordinary course of business. During the Reporting Period, the Company was not a party to any material legal proceedings.

During the Reporting Period, the Company had complied with applicable PRC laws and regulations in all material respects, and was not involved in any material non-compliance incidents.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries or Consolidated Affiliated Entities had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the date of this annual report, none of Directors or their associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group during the Reporting Period.



FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

The Group had entered into the following fully exempt continuing connected transaction during the Reporting Period.

Property Lease Framework Agreement

The Company entered into a property lease framework agreement with Wuhan Xunyue on August 29, 2020, pursuant to which Wuhan Xunyue leased a property (the “**Property**”) located in Wuhan, PRC to our subsidiaries for use as office. On March 1, 2021, the Company and Wuhan Xunyue entered into a new property lease framework agreement (the “**Property Lease Framework Agreement**”), with a term of 3 years from March 1, 2021 to February 29, 2024. The rental amount was determined following arm’s length negotiations between Wuhan Xunyue and the relevant member of the Group and calculated on a per month per square meter basis, with reference to (i) the historical rents of the Property; (ii) the prevailing market rents of similar properties in the same or nearby areas or similar locations in the PRC; and (iii) the historical trend and the expected increase in the rents in the PRC property market.

During the Reporting Period, the amounts of rental fees paid by the Group in respect of the Property was RMB520,000, lower than the Company’s expected annual cap of the transaction for that year. The Company expects that the maximum aggregate annual rental amounts payable to Wuhan Xunyue under the Property Lease Framework Agreement for the years 2022 and 2023 shall both not exceed RMB400,000.

Wuhan Xunyue is owned as to 60% by Mr. Fu Xi and 40% by Mr. Zhang Yuguo, both of whom are executive Directors and Controlling Shareholders. Therefore, Wuhan Xunyue is an associate of Mr. Fu Xi and Mr. Zhang Yuguo and thus a connected person of our Company.

As the relevant applicable percentage ratios with respect to the transactions contemplated under the Property Lease Framework Agreement on an annual basis are less than 5% and the annual consideration is less than HK\$3 million, the transactions under the Property Lease Framework Agreement constitutes de minimis transactions under Rule 14A.76(1) of the Listing Rules, and are fully exempt from the annual reporting, announcement, independent Shareholders’ approval and annual review requirements under Chapter 14A of the Listing Rules.

Non-Exempt Continuing Connected Transaction

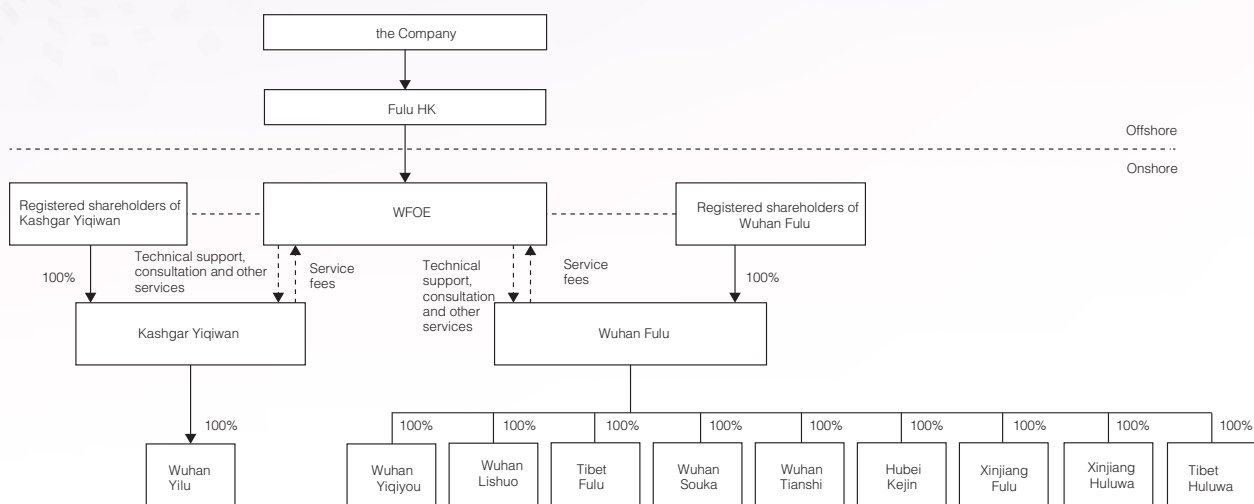
The Group had entered into the following non-exempt continuing connected transactions during the Reporting Period.

Contractual Arrangements

WFOE, PRC Holdcos and those Registered Shareholders of the PRC Holdcos entered into a series of contractual agreements, pursuant to which the Company obtained effective control over the Consolidated Affiliated Entities, and received all economic benefits arising from the business operated by the Consolidated Affiliated Entities. Accordingly, the results of operations, assets and liabilities, and cash flows of the Consolidated Affiliated Entities of the Company are consolidated into the financial statements of the Company through contractual arrangements.



The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to WFOE and the Company stipulated under the contractual arrangements:



Notes:

- (1) The registered shareholders of Kashgar Yiqiwan are Mr. Zhang Yuguo (a Controlling Shareholder and an executive Director) and Ms. Shen Yaling (an employee of Wuhan Fulu), holding 99% and 1% equity interest in Kashgar Yiqiwan as designated by WFOE, respectively.
- (2) The registered shareholders of Wuhan Fulu are Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao (all of whom are Controlling Shareholders and executive Directors), Tibet Fuxu and Tibet Fulong, holding 50.03%, 15.08%, 7.03%, 3.69%, 12.72% and 11.45% equity interest in Wuhan Fulu, respectively.
- (3) WFOE provides technical support, consultation and other services in exchange for service fees from Kashgar Yiqiwan. See “— Our Contractual Arrangements — Exclusive Business Cooperation Agreements” section in the Prospectus.
- (4) WFOE provides technical support, consultation and other services in exchange for service fees from Wuhan Fulu. See “— Our Contractual Arrangements — Exclusive Business Cooperation Agreements” section in the Prospectus.
- (5) The registered shareholders of Kashgar Yiqiwan executed an exclusive option agreement in favor of WFOE to grant WFOE an option to acquire all or part of the equity interests and/or assets in Kashgar Yiqiwan. See “— Our Contractual Arrangements — Exclusive Option Agreements” section in the Prospectus.

The registered shareholders of Kashgar Yiqiwan granted security interests in favor of WFOE over the entire equity interests in Kashgar Yiqiwan held by such registered shareholders. See “— Our Contractual Arrangements — Equity Pledge Agreements” section in the Prospectus.

The registered shareholders of Kashgar Yiqiwan executed the powers of attorney to appoint WFOE in relation to the exercise of the shareholder’s rights in Kashgar Yiqiwan. See “— Our Contractual Arrangements — Powers of Attorney” section in the Prospectus. The relevant individual shareholders of Kashgar Yiqiwan and the spouse of each relevant individual shareholders (where applicable) executed an undertaking in respect of his/her interests. See “— Our Contractual Arrangements — Confirmations from the Relevant Individual Shareholders” and “— Our Contractual Arrangements — Spouse Undertakings” sections in the Prospectus.



- (6) The registered shareholders of Wuhan Fulu executed an exclusive option agreement in favor of WFOE to grant WFOE an option to acquire all or part of the equity interests and/or assets in Wuhan Fulu. See “— Our Contractual Arrangements — Exclusive Option Agreements” section in the Prospectus.

The registered shareholders of Wuhan Fulu granted security interests in favor of WFOE over the entire equity interests in Wuhan Fulu held by such registered shareholders. See “— Our Contractual Arrangements — Equity Pledge Agreements” section in the Prospectus.

The registered shareholders of Wuhan Fulu executed the powers of attorney to appoint WFOE in relation to the exercise of the shareholder's rights in Wuhan Fulu. See “— Our Contractual Arrangements — Powers of Attorney” section in the Prospectus.

The relevant individual shareholders of Wuhan Fulu and the spouse of each relevant individual shareholders (where applicable) executed an undertaking in respect of his/her interests. See “— Our Contractual Arrangements — Confirmations from the Relevant Individual Shareholders” and “— Our Contractual Arrangements — Spouse Undertakings” sections in the Prospectus.

- (7) “→” denotes direct legal and beneficial ownership in the equity interest.
- (8) “----▶” denotes contractual relationship.
- (9) “-----” denotes the control by WFOE over the Registered Shareholders of the PRC Holdcos and the PRC Holdcos through (1) powers of attorney to exercise all shareholders' rights in the PRC Holdcos, (2) exclusive options to acquire all or part of the equity interests in the PRC Holdcos, and (3) equity pledges over the equity interests in the PRC Holdcos.

A description of each of the specific agreements under the contractual arrangements entered into among the WFOE, the PRC Holdcos and the relevant registered shareholders is set out below:

Exclusive Business Cooperation Agreements

Pursuant to the exclusive business cooperation agreements entered into between the PRC Holdcos and WFOE on December 25, 2019 and the exclusive business cooperation agreements amended and restated on January 7, 2020 (the “**Exclusive Business Cooperation Agreements**”), the PRC Holdcos agreed to engage WFOE as its exclusive service provider to provide technical support, consultation and other services in return for annual service fees, including: the use of any relevant software legally owned by WFOE; development, maintenance and updating of software in respect of the PRC Holdcos' business; design, installation, daily management, maintenance and updating of network systems, hardware and database design; providing technical support and staff training services to relevant employees of the PRC Holdcos; providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign-owned enterprises are prohibited from conducting under PRC laws); providing business management consultation; providing marketing and promotional services; providing customer order management and customer services; transfer, leasing and disposal of equipment or properties; and other relevant services requested by the PRC Holdcos from time to time to the extent permitted under the PRC laws.



Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the PRC Holdcos, after the deduction of any accumulated deficit, operating costs, expenses, taxes and other statutory contributions of the Consolidated Affiliated Entities in respect of the preceding financial year, and WFOE may be required to adjust the scope and amount of services fees according to PRC tax law and tax practices.

Exclusive Option Agreements

Pursuant to the exclusive option agreements entered into among the PRC Holdcos, WFOE and the Registered Shareholders of each of the PRC Holdcos on December 25, 2019 and the exclusive option agreements amended and restated on January 7, 2020 (the “**Exclusive Option Agreements**”), WFOE has the right to purchase, or to designate one or more persons/entities to purchase from the Registered Shareholders, all or any part of their equity interests in PRC Holdcos, and purchase, or to designate one or more persons/entities to purchase, from the PRC Holdcos all or any part of the assets of the PRC Holdcos at any time and from time to time. The consideration in relation to purchasing shares from the registered shareholders of Wuhan Fulu or Kashgar Yiqiwan shall be RMB1 or the lowest price as permitted by the applicable PRC laws. The consideration in relation to purchasing assets from Wuhan Fulu or Kashgar Yiqiwan shall be the lowest price as permitted by the applicable PRC laws. The Exclusive Option Agreements will remain valid unless terminated upon the transfer of the entire equity interest of the PRC Holdcos held by the Registered Shareholders to WFOE or their designated persons.

Equity Pledge Agreements

Pursuant to the equity pledge agreements entered into among WFOE, the Registered Shareholders and the PRC Holdcos on December 25, 2019 and the equity pledge agreements amended and restated on January 7, 2020 (the “**Equity Pledge Agreements**”), the Registered Shareholders agreed to pledge all their respective equity interests in the PRC Holdcos, including any interest or dividend paid for the shares, to WFOE to guarantee the performance of contractual obligations and the payment of outstanding debts. The Equity Pledge Agreements in respect of the PRC Holdcos came into effect upon execution and shall remain valid until after all the contractual obligations of the Registered Shareholders and the PRC Holdcos under the relevant contractual arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the PRC Holdcos under the relevant contractual arrangements have been fully paid.

Powers of Attorney

Pursuant to the powers of attorney executed by the Registered Shareholders in respect to their rights in the PRC Holdcos on December 25, 2019 and January 7, 2020, respectively (the “**Powers of Attorney**”), the Registered Shareholders irrevocably appointed WFOE and its designated persons (including but not limited to the directors and their successors and the liquidators replacing such directors but excluding non-independent persons or any persons who might give rise to conflict of interests) as their attorneys-in-fact to exercise, on their behalf, all the rights attached by the equity interests in the PRC Holdcos, and agreed and undertook not to exercise, without such attorneys-in-fact's prior written consent, any and all rights that they had in respect of their equity interests in the PRC Holdcos. During the period that each registered shareholder holds the equity interests of the PRC Holdcos, the Powers of Attorney shall remain valid.



Confirmations from the Relevant Individual Shareholders

Each of the relevant individual shareholders of the PRC Holdcos, the general partner and limited partners of Tibet Fulong and Tibet Fuxu (the “**Relevant Individual Shareholders**”) has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the respective registered shareholder of the PRC Holdcos (together with any other interests therein) or exert influence on the day-to-day management of the respective registered shareholder of the PRC Holdcos; and (ii) in the event of his/her disappearance, death, incapacity, divorce, marriage or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective registered shareholder of the PRC Holdcos, he/she will take necessary actions to safeguard his/her interests in the respective registered shareholder of the PRC Holdcos (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the respective Registered Shareholder of the PRC Holdcos (together with any other interests therein) to the effect that the interests of such Registered Shareholders in the PRC Holdcos shall not be affected.

Spouse Undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking to the effect that (i) the respective Relevant Individual Shareholders’ interests in the PRC Holdcos (together with any other interests therein) do not fall within the scope of communal properties, (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests, and (iii) in the event of his/her divorce, he/she will take all necessary actions to ensure that the contractual arrangements are properly performed.

As advised by our PRC Legal Advisor, our Directors are of the view that (i) the above arrangements provide protection to the Group even in the event of death or divorce of any Relevant Individual Shareholder and (ii) the death or divorce of such shareholder would not affect the validity of the contractual arrangements, and WFOE or the Company can still enforce their rights under the contractual arrangements against the Registered Shareholders of the PRC Holdcos.

The Foreign Investment Law

On January 1, 2020, the Foreign Investment Law (《外商投資法》) (the “**FIL**”) and the Regulations for Implementation of the Foreign Investment Law of the People’s Republic of China (the “**Implementation Regulations**”) came into effect and replaced the previous laws regulating foreign investment in PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The FIL and its Implementation Regulations embody an expected regulatory trend in PRC to optimize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.



The FIL does not explicitly stipulate the contractual arrangements as a form of foreign investment. The FIL does not mention concepts including “de facto control” and “controlling through contractual arrangements” nor does it specify the regulations on controlling through contractual arrangements. Furthermore, the FIL does not specifically stipulate rules on the relevant businesses. Instead, the FIL stipulates that “foreign investors invest in PRC through any other methods under laws, administrative regulations or provisions prescribed by the State Council”, which leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a method of foreign investment. On December 26, 2019, the Supreme People’s Court issued the Interpretations on Certain Issues Regarding the Application of Foreign Investment Law (the “**FIL Interpretations**”), which came into effect on January 1, 2020. In accordance with the FIL Interpretations, where a party concerned claims an investment agreement to be invalid on the basis that it is for an investment in the prohibited or restricted industries under the negative list and violates the restrictions set out therein, the courts should support such claim. In addition, the FIL does not specify what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC entities and/or citizens.

Therefore, it is possible that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment. At that time, whether our contractual arrangements will be recognized as foreign investment, whether our contractual arrangements will be deemed to be in violation of the foreign investment access requirements and how our contractual arrangements are to be handled will be uncertain.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between the Group and the PRC Holdcos and/or Consolidated Affiliated Entities during the Reporting Period. There was no material change in the contractual arrangements and/or the circumstances under which they were adopted during the Reporting Period.

During the Reporting Period, none of the contractual arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the contractual arrangements had been removed. As of December 31, 2021, the Company had not encountered interference or encumbrance from any PRC governing bodies in operating its businesses through its Consolidated Affiliated Entities under the contractual arrangements.

The revenue of the PRC Holdcos and their respective subsidiaries amounted to RMB398 million for the year ended December 31, 2021, representing approximately 99.7% of the total revenue of the Group. The total assets of the PRC Holdcos and their respective subsidiaries amounted to RMB1,343 million as of December 31, 2021, representing approximately 97.5% of the total assets of the Group.



Reasons for Adopting the Contractual Arrangements

Our Consolidated Affiliated Entities conduct online cultural activities and value-added telecommunications service businesses on its e-commerce and information platform, which are subject to foreign investment restrictions in accordance with the Special Administrative Measures for the Market Entry of Foreign Investment (Negative List). After consultation with our PRC Legal Advisor, the Company determined that it was not viable for it to hold its Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, we would gain effective control over, and receive all the economic benefits generated by, the businesses currently operated by the Consolidated Affiliated Entities through the contractual arrangements between WFOE, on the one hand, and the PRC Holdcos and its Registered Shareholders, on the other hand.

The Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions set out above have been entered into in the Company's ordinary and usual course of business on normal commercial terms or better, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the contractual arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would add unnecessary administrative costs to the Company for all the transactions contemplated under the contractual arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval by independent Shareholders.

Risks Relating to the Contractual Arrangements

The following are the certain risks that are associated with the contractual arrangements, including:

- If the PRC government finds that the agreements that establish the structure for operating the Company's business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish its interests in those operations.
- Since the FIL remains relatively new, uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the continuity of the Company's current corporate structure, corporate governance and business operations.
- The Company's contractual arrangements may not be as effective in providing operational control as direct ownership, and its VIE shareholders may fail to perform their obligations under the contractual arrangements.
- The Company may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by its VIEs, which could render it unable to conduct some or all of its business operations and constrain its growth.



- The contractual arrangements with the Company's VIEs may be subject to scrutiny by the tax authorities in China. Any adjustment to related party transaction pricing could lead to additional taxes, and therefore could substantially reduce its consolidated profit and the value of your investment.
- The equity holders, directors and executive officers of the VIEs may have potential conflicts of interest with the Company.
- The Company conducts its business operations in China through its VIEs by way of contractual arrangements, but certain terms of the contractual arrangements may not be enforceable under PRC laws.
- If the Company exercises the option to acquire equity ownership of its VIEs, the ownership transfer may subject us to certain limitations and substantial costs.

The Group has adopted measures to ensure the effective operation of the Group's businesses with the implementation of the contractual arrangements and its compliance with the contractual arrangements, including:

- (i) major issues arising from the implementation and compliance with the contractual arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (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 its annual reports; and
- (iv) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the contractual arrangements, review the legal compliance of WFOE and its Consolidated Affiliated Entities to deal with specific issues or matters arising from the contractual arrangements.



In addition, notwithstanding that our executive Directors, Mr. Fu Xi (符熙), Mr. Zhang Yuguo (張雨果), Mr. Shui Yingyu (水英聿) and Mr. Zhao Bihao (趙筆浩) are the registered shareholders of Wuhan Fulu, and Mr. Zhang Yuguo (張雨果) is also the registered shareholder of Kashgar Yiqiwan, we believe that our Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently under the following measures:

- (a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having any material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of the Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of the Group;
- (c) we have appointed three independent non-executive Directors, comprising over one-third of the Board, to provide a balance of the number of interested Directors and independent Directors with a view to promoting the interests of the Company and the Shareholders as a whole; and
- (d) we will disclose, in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his or her associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group, where appropriate.

Listing Rules Implications and Waivers from the Stock Exchange

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities will be treated as the Company’s wholly owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company’s “connected persons” under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and the Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the contractual arrangements, will be subject to the requirements under Chapter 14A of the Listing Rules.



The transactions contemplated under the contractual arrangements constitute continuing connected transactions of the Company.

In relation to the contractual arrangements, the Stock Exchange has granted a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the contractual arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the contractual arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the contractual arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange, subject however to the following conditions:

- (a) no change without independent non-executive Directors' approval;
- (b) no change without independent Shareholders' approval;
- (c) the contractual arrangements shall continue to enable the Group to receive the economic benefits derived from the Consolidated Affiliated Entities;
- (d) the contractual arrangements may be renewed and/or reproduced (i) upon expiry or (ii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise or operating company (including a branch company) engaging in the same business as that of the Group, without obtaining Shareholders' approval, on substantially the same terms and conditions as the contractual arrangements; and
- (e) the Group will disclose details relating to the contractual arrangements on an ongoing basis.

Annual Review by the Independent Non-executive Directors and the Auditor

The independent non-executive Directors have reviewed the contractual arrangements outlined above, and confirmed that:

- (a) the transactions carried out during the Reporting Period had been entered into in accordance with the relevant provisions of the contractual arrangements;
- (b) no dividends or other distributions had been made by the Company's Consolidated Affiliated Entities to the holders of their equity interests, nor were they otherwise subsequently assigned or transferred to the Group; and
- (c) any new contracts entered into, renewed and/or reproduced between the Group and the Consolidated Affiliated Entities during the Reporting Period are fair and reasonable, or advantageous, so far as the Shareholders of the Group is concerned and in the interest of the Group and the Shareholders as a whole.



The Auditor has carried out review procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants annually on the transactions carried out pursuant to the contractual arrangements. The Auditor has confirmed in a letter to the Board that the transactions carried out pursuant to the contractual arrangements during the year ended December 31, 2021 had received the approval of the Board, 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 Company’s Consolidated Affiliated Entities to the holders of their equity interests, nor were they otherwise subsequently assigned or transferred to the Group. Certain related party transactions set out in Note 30 to the financial statements of this annual report constitute connected transactions or continuing connected transactions defined under Chapter 14A of the Listing Rules and disclosed in this annual report, and are in compliance with the disclosure requirements under Chapter 14A of the Listing Rules. Save as disclosed in this annual report, during the Reporting Period, the Company had no connected transactions or continuing connected transactions which are required to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB71,900.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Reporting Period, the Company was not involved in any material litigation or arbitration, nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

PERMITTED INDEMNITY PROVISION AND DIRECTORS AND OFFICERS LIABILITY INSURANCE

Under the Articles of Association, every Director or other officers of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the performance of his/her duties in his/her office. The Company has arranged appropriate insurance coverage in respect of legal actions against its Directors and relevant officers.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

After the end of the Reporting Period, the Board recommended a final dividend of HK\$0.176 per Share for the year ended December 31, 2021, which will be submitted to Shareholders for approval at the forthcoming AGM of the Company.





DIRECTORS' REPORT

AUDIT COMMITTEE

The Audit Committee, together with the Auditor, has reviewed the Company's audited consolidated financial statements for the year ended December 31, 2021. The Audit Committee has also reviewed the accounting policies and practices adopted by the Company and discussed auditing, risk management, internal control and financial reporting matters.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period.

AGM AND CLOSURE OF THE REGISTER OF MEMBERS

The Company intends to hold the AGM on Thursday, May 19, 2022. The register of members of the Company will be closed from Monday, May 16, 2022 to Thursday, May 19, 2022, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no Share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Hong Kong Share Registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, May 13, 2022.

Subject to the approval by the Shareholders at the AGM, the proposed final dividend will be paid to the Shareholders whose names appear on the register of members of the Company on Friday, May 27, 2022. The register of members of the Company will also be closed from Wednesday, May 25, 2022 to Friday, May 27, 2022, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend. To qualify for the final dividend (subject to the approval of Shareholders), unregistered holders of Shares of the Company shall lodge relevant share transfer documents with the Hong Kong Share Registrar for registration, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, May 24, 2022.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the tax implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights (including entitlements to any relief of taxation) in relation to, the Shares, they are advised to consult an expert.



AUDITOR

Ernst & Young was appointed as the Auditor of the Company during the Reporting Period. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst & Young.

Ernst & Young shall retire at the forthcoming AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as the Auditor will be proposed at the AGM.

On behalf of the Board

Fu Xi

Chairman

March 28, 2022





CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices with a view to enhance the management efficiency of the Company as well as preserving the interests of its Shareholders as a whole. During the year ended December 31, 2021, save for the deviation from code provision C.2.1 described in the paragraph headed “Board of Directors — Chairman and Chief Executive Officer”, the Company has complied with the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for leading and controlling 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 should make decisions objectively in the interests of the Company.

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.

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



All Directors have full and timely access to all the information of the Company as well as the services and advice from the joint company secretaries and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expense, for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board has the right to decide on all major matters at its discretion including policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the senior management of the Group. The senior management administers, interprets, enforces, supervises the compliance with the internal policies and operational procedures and conducts regular reviews on such policies and procedures across different levels of the Group. The senior management communicates with the Board on a regular basis.

Continuous Professional Development of Directors

The Company believes education and training are important for maintaining an effective Board. Each Director has received formal and comprehensive training to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Company arranges continuous professional development training to Directors such as internal briefings and provision of reading materials on relevant topics to ensure Directors keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant. Directors also regularly meet with the senior management team to understand the Group's businesses, governance policies and regulatory environment. All Directors are also encouraged to attend relevant training courses.





CORPORATE GOVERNANCE REPORT

The Directors pursued continuous professional development and relevant details are summarized as follows:

Name of Director	Participated in continuous professional development⁽¹⁾
Executive Directors	
Fu Xi (符熙)	✓
Zhang Yuguo (張雨果)	✓
Shui Yingyu (水英聿)	✓
Zhao Bihao (趙筆浩)	✓
Mao Feng (茅峰)	✓
Independent non-executive Directors	
Li Wai Chung (李偉忠)	✓
Wang Yuyun (王雨雲) (alias Wang Yuyun (王雨蘊))	✓
Wong Sincere (黃誠思)	✓

Note:

- (1) Attended training/seminar/conference arranged by the Company or other external parties or read relevant materials.

Chairman and Chief Executive Officer

The code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Fu Xi currently performs these two roles and is responsible for the Group's strategies, corporate culture and oversees our senior management team. The Board considers that Mr. Fu Xi acting as both the chairman and the chief executive officer will ensure consistent leadership within the Group and enable more effective and efficient overall strategic planning for the Group, and it is appropriate and beneficial to our business development and prospects that Mr. Fu Xi continues to act as both the chairman and the chief executive officer at the current stage of development of the Company. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. Therefore the Board does not propose to separate these two roles. The Board will continue to review and consider splitting the roles of chairman and chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Composition

As at the date of this annual report, the Board is comprised of eight Directors, including five executive Directors and three independent non-executive Directors. During the Reporting Period, there had been no change to the composition of the Board.

A list of Directors and their respective biographies are set out in the section headed “Directors and Senior Management” of this annual report.

The Board’s composition is in compliance with the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board. The Board believes that the proportion between the executive Directors and the independent non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the Shareholders and the Group. None of the members of the Board is related to one another.

The Board values the importance of professional judgment and advice provided by the independent non-executive Directors to safeguard the interests of the Shareholders. The independent non-executive Directors contribute diversified qualifications and experience to the Group by expressing their views in a professional, constructive and informed manner, and actively participating in Board and committee meetings, and bring professional judgment and advice on issues relating to the Group’s strategies, policies, performance, accountability, resources, key appointments, standards of conduct, conflicts of interests and management process, with the Shareholders’ interests being the utmost important factor. The independent non-executive Directors also exercise their professional judgment and utilize their expertise to scrutinize the Company’s performance in achieving agreed corporate goals, and monitor performance reporting.

Further, in compliance with Rule 3.10 of the Listing Rules, one of the Company’s independent non-executive Directors has the appropriate professional qualifications of accounting or related financial management expertise, and provides valuable advice from time to time to the Board. The Company has also received from each independent non-executive Director an annual confirmation of his independence and the Nomination Committee has conducted an annual review in respect of the length of service of each independent non-executive Director after taking into account of the independence guidelines set out in Rule 3.13 of the Listing Rules, and considers that all independent non-executive Directors are independent.

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

Board Activity

The Board held four meetings during the Reporting Period. The attendance of each Director at Board, committee meetings and annual general meeting of the Company, whether in person or by means of electronic communication, is detailed in the table below:

Name of Director	Attendance/No. of Meetings Held during the Reporting Period				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Executive Directors					
Fu Xi	4/4	N/A	1/1	1/1	1/1
Zhang Yuguo	4/4	N/A	N/A	N/A	1/1
Shui Yingyu	4/4	N/A	N/A	N/A	1/1
Zhao Bihao	4/4	N/A	N/A	N/A	1/1
Mao Feng	4/4	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Li Wai Chung	4/4	2/2	N/A	1/1	1/1
Wang Yuyun (王雨雲) (alias Wang Yuyun (王雨蘊))	4/4	2/2	1/1	N/A	1/1
Wong Sincere	4/4	2/2	1/1	1/1	1/1

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

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least hold a meeting with the independent non-executive Directors once a year, without the presence of other Directors. During the Reporting Period, the Company held a meeting with the Chairman and independent non-executive Directors only, without the presence of other executive Directors. The Board held a meeting on March 28, 2022 to consider and approve the annual results of the Company for the year ended December 31, 2021. The Chairman held a meeting with independent non-executive Directors without the presence of other Directors on the same day.



Corporate Governance Function

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

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- reviewing the Company's compliance with the code provisions of the CG Code and disclosure in the Corporate Governance Report in accordance with the Listing Rules.

During the Reporting Period, the Board had reviewed the policies and practices on corporate governance and this Corporate Governance Report.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the Company's website and the Stock Exchange's website.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee include the followings:

- (a) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- (b) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) developing and implementing policies on engaging an external auditor to supply non-audit services;



- (d) monitoring the integrity of the Company's financial statements, annual reports, accounts and half-yearly reports; and
- (e) reviewing financial information and monitoring the Company's financial reporting, financial controls, risk management and internal control systems.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Li Wai Chung, Ms. Wang Yuyun and Mr. Wong Sincere. Mr. Li Wai Chung has been appointed as the chairman of the Audit Committee and is the independent non-executive Director with the appropriate professional qualifications.

During the Reporting Period, (1) the Audit Committee held two meetings. Individual attendance of each Audit Committee member is set out on page 64; and (2) the Audit Committee and the external auditor held a meeting on March 28, 2022 without the presence of executive Directors.

The Audit Committee's major work during the Reporting Period includes:

- (a) reviewing the 2021 interim report;
- (b) reviewing compliance with CG Code, Listing Rules and relevant laws;
- (c) reviewing the Company's cybersecurity structure and the effectiveness of its cybersecurity management and technology framework;
- (d) reviewing the Company's continuing connected transactions; and
- (e) reviewing the terms of engagement, independence and remuneration of the external auditor.

The Audit Committee annually reviews the relationship between the Company and its auditor and recognizes that the auditor's independence is a fundamental governance principle. The auditor should provide quarterly updates to the Audit Committee if any independence issue is identified and is required to give an annual confirmation on its independence. The Audit Committee has also reviewed the effectiveness of the external audit process as well as the independence and objectivity of the auditor, and satisfied with the good relationship. As such, the Audit Committee has recommended the re-appointment of the auditor at the AGM.

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The primary duties of the Remuneration Committee include the following:

- (a) making recommendations to the Board on the Company's policy and structure for remuneration of all Directors and senior management;
- (b) reviewing and approving the management's remuneration proposals in accordance with the corporate goals and objectives determined by the Board;



- (c) establishing formal and transparent procedures for developing remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; and
- (d) advising Shareholders of the Company on how to vote in respect of any service contracts of Directors that require shareholders' approval in accordance with the Listing Rules.

The Remuneration Committee consists of three members, namely Ms. Wang Yuyun and Mr. Wong Sincere, the independent non-executive Directors and Mr. Fu Xi, the executive Director. Ms. Wang Yuyun has been appointed as the chairman of the Remuneration Committee.

During the Reporting Period, the Remuneration Committee held one meeting. Individual attendance of each Remuneration Committee member is set out on page 64.

The Remuneration Committee's major work during the Reporting Period includes:

- (a) reviewing the framework and structure of compensation and benefit; and
- (b) reviewing the compensation packages of directors and management.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee include the following:

- (a) reviewing the structure, size and composition of the Board;
- (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals to be nominated for directorships;
- (c) assessing the independence of the independent non-executive Directors;
- (d) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and
- (e) making recommendations on the appointment of Directors with due regard to the diversity policy of the Company and in accordance with the challenges and opportunities faced by the Company.

The Nomination Committee consists of three members, namely Mr. Wong Sincere and Mr. Li Wai Chung, the independent non-executive Directors and Mr. Fu Xi, the executive Director. Mr. Fu Xi has been appointed as the chairman of the Nomination Committee.

The Nomination Committee reviews at least annually the structure, size, composition (including the skills, knowledge and experience) and diversity of the Board and where appropriate, makes recommendations on changes to the Board to complement the Company's corporate strategy.



The Company regards increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Company has implemented a board diversity policy. The Company's board diversity policy specifies that in designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and industry and regional experience. All appointments to the Board will be based on merit and the needs of its business from time to time, and taking into account the benefits of diversity to the Board. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth.

The Nomination Committee has a primary responsibility for identifying suitably qualified candidates to become members of the Board and, in carrying out this responsibility, will give adequate consideration to the board diversity policy. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's business model and specific needs from time to time, including but not limited to skills, knowledge, experience, gender and background.

The Nomination Committee will ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Nomination Committee will report annually on the Board's composition and make appropriate disclosures regarding the board diversity policy in the Corporate Governance Report of the Company's annual reports. It will also monitor the implementation of the board diversity policy.

Directors have a balanced mix of knowledge and skills, including but not limited to overall business management, finance and accounting, investment and law. They obtained degrees in various majors including business administration, computer science, accounting, finance and law. Furthermore, the Board has a relatively wide range of ages, ranging from 33 years old to 57 years old, and there are both male and female representatives on the Board, with male representatives accounting for 88% and female representatives accounting for 12%. The Board is of the view that our Board satisfies the board diversity policy.

For the year ended December 31, 2021, among the employees of the Group, 56% are male and 44% are female. Among the senior management of the Group, 83% are male and 17% are female. We create an environment with respect and inclusiveness where we will prioritize diversity in gender, age and professional skill, and recruit employees with diverse experience, backgrounds and perspectives.

During the Reporting Period, the Nomination Committee held one meeting. Individual attendance of each Nomination Committee member is set out on page 64.

The Nomination Committee's major work during the Reporting Period includes:

- (a) reviewing and monitoring the implementation of the board diversity policy;
- (b) reviewing and assessing the structure, size, composition and diversity of the Board;
- (c) reviewing the election of Directors and its schedule; and
- (d) reviewing and assessing the independence of the independent non-executive Directors.



RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is the Board's responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems. The risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board delegates its responsibility to the Audit Committee to review the practices of management with respect to risk management and internal control, including the design, implementation and supervision of risk management and internal control systems. This review takes place once a year, which includes an annual review on the effectiveness of the risk management and internal control systems. The Board is also responsible for overseeing the risk appetite of the Company including determining the risk level the Company expects and is able to take, and proactively considering, analysing and formulating strategies to manage the key risks that the Company is exposed to.

For the year ended December 31, 2021, the Board believes that the Group's risk management and internal control systems were efficient and effective.

Risk Management Policies

To identify, assess and control risks to our business, we have designed and implemented policies and procedures to help ensure effective risk management in our operations. Our operation decision-making committee formulates our risk management policies, strategies and plans. Our legal department is responsible for identifying, evaluating and managing operational risks. Each of our business departments monitors and evaluates our risk management and internal control policies and procedures.

Our risk management policies cover the material aspects of our operations, including:

- fund allocation and management;
- counterparty risk management;
- sales process management, including closely monitoring the sale of digital goods. For example, we set parameters in our system in advance of market campaigns to help ensure our platform does not facilitate digital goods transactions at prices beyond the ranges prescribed by digital goods vendors;
- legal compliance;
- intellectual property protection;
- human resource management;
- financial reporting management; and
- corporate governance.



Major Risks of the Company

In 2021, the management of the Company identified various risks in business operation through the above risk management process. Below is a summary of the risks faced by the Company along with the applicable response strategies. With the growth of business scale, scope, complexity and the changing external environment, the Company's risk profile may change and the list below is not intended to be exhaustive.

Policy and Regulatory Risk

Our business is subject to regulation by various governmental agencies in China, including the Ministry of Commerce, the Ministry of Industry and Information Technology, and the Ministry of Culture and Tourism. These regulations relate to games, e-commerce, foreign direct investment, intellectual property rights, consumer protection and data privacy, foreign exchange and taxation and related areas of law. The regulatory framework governing the industry is also evolving and is expected to remain uncertain in the foreseeable future. Changes in regulatory policies may affect the development of our business.

The Company has established dedicated departments and teams, continuously expanded professional talents and hired multiple external professional consultants, maintained close communication with business department, actively paid attention to regulatory trends and changes in related laws and regulations, and adjusted strategies accordingly to take countermeasures so as to ensure that the Company continues to develop its business in compliance with relevant regulatory requirements.

Market Competition Risk

We face fierce competition imposed by companies that provide digital goods and services. Suppliers of digital goods may sell digital goods to consumers, directly or through other online or offline digital goods consumption scenarios. New competitor may enter the digital goods industry in China, and we may face new competitor as we expand our business into new industry segment.

The management of the Company pays close attention to the changing trend of the industry and the market and attaches great importance to the changes in user experience and needs. The management has been committed to innovative business planning and layout, actively explores and promotes new businesses, strengthens cooperation with business partners and continuously improves technological innovation and market competitiveness by recruiting more outstanding talents and constantly optimizing organizational structure.

Information System Risk

Our platform generates and processes a large quantity of data. As a result, we face risks inherent in accessing and handling large volumes of data, including those associated with the followings:

- protecting the data hosted on our technology systems, including against attacks on our systems by outside parties or employee error or malfeasance;
- addressing concerns related to data privacy, sharing and security; and



- complying with laws, rules and regulations governing the use and disclosure of personal information.

The Company has established an effective risk management mechanism. Through a series of assessment and analysis in advance, the Company continuously optimizes the technical system and keeps reducing the possibility of information system risk. Furthermore, the Company also conducts information security awareness training and publicity regularly to enhance employees' awareness of protecting sensitive information.

Operational Risk

The performance, reliability and availability of our platform and underlying technology infrastructure are critical to our operations, reputation and our ability to attract and retain platform participants. A system outage, malfunction or data loss could hamper our ability to provide services. In addition, the operation of the Company may be affected by the natural disasters and other calamities. Fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events may cause server interruptions, breakdowns, system failures or internet failures. These incidents could cause the loss or corruption of data or malfunctions of software or hardware and adversely affect our ability to provide our services.

The Company has set up a special team to deal with operational risk, assess emergencies and take emergency measures to ensure the smooth operation of the business.

INTERNAL CONTROL

The Board is responsible for establishing our internal control system and reviewing its effectiveness. We have formulated comprehensive internal control policies and measures to manage emergencies, including public security incidents, operations incidents, network security incidents, natural disasters, and legal and policy events. In addition, the Company has already modified and implemented our internal audit policies based on the Listing Rules, formulated and enhanced sales and procurement procedures, established and implemented certain policies and procedures with respect to assets, treasury, human resources, taxation, investment and general information systems controls and established and implemented review and approval procedures, as well as policies regarding financial reporting, so as to ensure the effective operation of risk management and internal control.

Our operation decision-making committee is ultimately responsible for emergency management. Its responsibilities include:

- commanding and coordinating emergency preparation, responding and handling;
- determining specific emergency response-related matters;
- determining members of the emergency response team and their tasks;
- supervising and managing the establishment and operation of emergency systems;



- reporting and publishing the progress of emergency management; and
- coordinating with outside parties with respect to emergency management.

We have established an emergency response team under the operation decision-making committee which is responsible for implementing emergency plans formulated by, and reporting emergency events to, the operation decision-making committee.

We divide emergency response levels into level I responses (company level) and level II responses (department level) based on a range of factors relating to the emergency event, including its nature, severity, manageability and scope, among other factors. After we become aware of an emergency event, we evaluate the event to determine the applicable emergency response level and then take corresponding measures in response to the event.

We also formulate specific emergency handling plans for particular emergency events. For example, on January 22, 2020, we developed a company-wide COVID-19 emergency response plan and established an emergency response team to monitor COVID-19 related emergencies..

Effectiveness of Risk Management and Internal Control

The Audit Committee, on behalf of the Board, continuously reviews the risk management and internal control systems of the Company. The review process comprises, among other things, meetings with management of business groups, the internal audit team, legal personnel and the external auditors, reviewing the relevant work reports and information of key performance indicators, and discussing the major risks with the senior management of the Company. The Board is of the view that during the Reporting Period, the risk management and internal control systems of the Company were effective and adequate.

In addition, the Board believes that the Company's accounting and financial reporting functions have been performed by employees with appropriate qualifications and experience and that such employees have received appropriate and sufficient training and development. Based on the audit report of the Audit Committee, the Board also believes that sufficient resources have been obtained for the Company's internal audit function and that its employees' qualifications and experience, training programs and budgets are sufficient.

POLICY ON THE DISCLOSURE OF INSIDE INFORMATION

The Company has put in place an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access to and use of inside information are strictly prohibited.



CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition. A written requisition shall be deposited at the Company's principal place of business in Hong Kong. If within 21 days of such deposit the Board fails to proceed to convene such meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, 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.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The Company strives to provide ready, fair, regular and timely disclosure of information that is material to the investor community. Therefore, the Company works to maintain effective and ongoing communication with Shareholders so that they, along with prospective investors, can exercise their rights in an informed manner based on a good understanding of the Group's operations, businesses and financial information. The Company also encourages Shareholders' active participation in annual general meetings and other general meetings or through other proper means. General meetings can provide an opportunity for communication between the Directors, senior management and the Shareholders. The Company recognizes the importance of effective communication with Shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the senior management directly. Board members and appropriate senior management of the Company are available at such meetings to respond to enquiries raised by the Shareholders.

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

During the Reporting Period, the Company held an annual general meeting on May 12, 2021. Notice of the general meeting was sent to the Shareholders on April 9, 2021, at least 20 clear business days before the general meeting. The chairman of the Board and the chairman of each of the Audit Committee, the Nomination Committee and the Remuneration Committee attended the annual general meeting and were available to answer any questions raised by the Shareholders. A representative of the Auditor also attended the meeting to answer any questions about the conduct of the audit, the preparation and content of the audit report, the accounting policies and the independence of auditor.





CORPORATE GOVERNANCE REPORT

The Company has developed and maintained a shareholders' communication policy with the objective of promoting effective and ongoing communication between the Company and the Shareholders, which is available on the Company's website at "www.fulu.com". The Company's website is maintained as a communication platform with the Shareholders, where information on the Company's announcements, reports, financial information and other information are available for public access.

A summary of the disclosure of interests of the substantial shareholders of the Company is set out in the section headed "Directors' Report" of this annual report.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board can send their enquiries to the headquarters of the Company at 2nd Floor, Building B2, Optics Valley Financial Port, No. 77 Guanggu Avenue, East Lake High-tech Development Zone, Wuhan, Hubei Province, the PRC to the attention of the Joint Company Secretaries or send an email to IR@fulu.com.

The Company welcomes the views of and enquiries from the Shareholders. Enquiries to the Board or senior management of the Company will be dealt with in an informative and timely manner.

UNDERTAKING GIVEN BY THE CONTROLLING SHAREHOLDERS

Deed of Non-competition

Each of the Controlling Shareholders has undertaken to us in the deed of non-competition (the "**Deed of Non-competition**") that he/it will not, and will procure his/its close associates (other than members of our Group) not to directly or indirectly (whether or not through his/its own, jointly with any person, corporation, partner, joint venture or any other contractual arrangements, and whether or not in exchange for profit or other benefits) participate, acquire or hold any right or interest in or otherwise be involved in or undertake any business that directly or indirectly competes, or may compete, with the existing business activity of the Group or any business activities which the Group may undertake in the future (in all cases, whether or not as shareholder, partner, agent or any other capacity, and whether or not for profits, returns or any benefits) (the "**Restricted Activity**"), or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time, except where the Controlling Shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group and they do not control over the board of directors of such company.



Further, each of the Controlling Shareholders has undertaken to procure that if any new business investment or other business opportunity relating to the Restricted Activity (the “**Competing Business Opportunity**”) is identified by or made available to him/it or any of his/its close associates, he/it shall, and shall procure that his/its close associates shall, refer such Competing Business Opportunity to our Company on a timely basis and refer the Competing Business Opportunity to the Company by giving written notice to the Company of such Competing Business Opportunity within 30 business days of identifying the target company (if relevant) and the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for the Company to consider whether to pursue such Competing Business Opportunity.

The Controlling Shareholders of the Company have confirmed that during the period from the execution of the Deed of Non-competition on August 29, 2020 to the Latest Practicable Date, they complied with the Deed of Non-competition. The independent non-executive Directors of the Company have reviewed the compliance with the Deed of Non-competition by the Controlling Shareholders of the Company and confirmed that the Controlling Shareholders of the Company complied with the Deed of Non-competition from August 29, 2020 to the Latest Practicable Date.

CHANGES TO DIRECTORS’ INFORMATION

Save as disclosed above, the Directors confirm that there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

JOINT COMPANY SECRETARIES

On June 30, 2021, Ms. Lam Yuk Ling resigned as a joint company secretary of the Company. On the same date, Ms. Ng Ka Man has been appointed as a joint company secretary of the Company. For details of the changes, please refer to the announcement published by the Company on June 30, 2021.

Mr. Mao Feng, a joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.





CORPORATE GOVERNANCE REPORT

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Ng Ka Man, a manager of the listing services department of TMF Hong Kong Limited, as the other joint company secretary to assist Mr. Mao in discharging his duties as company secretary of the Company. Ms. Ng's primary contact person at the Company is Mr. Mao.

For the year ended December 31, 2021, Mr. Mao and Ms. Ng undertook not less than 15 hours of relevant professional training, respectively, in compliance with Rule 3.29 of the Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Please refer to Note 8 to the financial statements of this annual report for details of remuneration of Directors for the year ended December 31, 2021.

Details of the remuneration by band of Directors and senior management of the Company, whose biographies are set out in the section headed "Directors and Senior Management" of this annual report, for the year ended December 31, 2021 are set out below:

Remuneration band (RMB)	Number of individuals
1-5,000,000	10
>5,000,000	4

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021, and are aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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



AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the Auditor to the Group during the year ended December 31, 2021 was approximately as follows:

Type of Services	Amount <i>(RMB'000)</i>
Audit and audit-related services	2,600
Non-audit services	0
Total	2,600

Auditor's remuneration is the remuneration paid by the Group for the 2021 audit service provided by the Auditor.

CHANGES IN CONSTITUTIONAL DOCUMENTS

No changes were made to the Articles of Association of the Company during the Reporting Period.



INDEPENDENT AUDITOR'S REPORT



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Quarry Bay, Hong Kong

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To the shareholders of Fulu Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Fulu Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 161, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

Revenue recognition of digital goods-related services

During the year ended 31 December 2021, the Group recognised digital goods-related services revenue of RMB331,700,000, which was recorded on a net basis since the Group considered that it was acting as an agent rather than as a principal based on its assessment of control over the specified digital goods. As the amount of digital goods-related services revenue was significant and significant judgements were required in determining whether the Group was acting as an agent or a principal in a transaction with a customer, we considered the revenue recognition of digital goods-related services a key audit matter.

The disclosures of revenue recognition of digital goods-related services are included in note 3.1, note 3.2 and note 5 to the consolidated financial statements.

Expected credit losses of trade receivables, contract assets and financial assets included in prepayments, other receivables and other assets

The balances of trade receivables, contract assets and prepayments, other receivables and other assets as at 31 December 2021 were RMB276,959,000, RMB42,287,000 and RMB762,506,000, respectively.

The Group uses external credit ratings and historical credit loss experience of the industry to calculate expected credit losses ("ECLs") for trade receivables and contract assets under the simplified approach and for refundable prepayments, deposits and other receivables under the general approach. The observed default rates of the industry were adjusted with forward-looking information. The aforementioned process was complex and involved significant judgements and estimates. Accordingly, we considered expected credit losses on financial assets and contract assets are key audit matters.

The disclosures of expected credit losses are included in note 3.1, note 3.2, note 18, note 19 and note 20 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures included, among others, testing key controls of digital goods-related service processes, including the controls on digital goods movement, on a sampling basis, with the assistance of our internal IT specialists. We also reconciled the transaction data in the operating system with the amounts recorded in the accounting system. We reviewed key terms of digital goods-related services contracts on a sampling basis to assess management's judgements on principal versus agent considerations.

We also assessed the adequacy of related disclosures in the consolidated financial statements.

Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular, the default rates, losses given default and forward-looking adjustments, with the assistance of our internal valuation specialists. We tested the source data used for calculation such as the gross amounts of assets and external credit ratings, and checked the arithmetic correctness of the Group's calculation.

We also assessed on the adequacy of related disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 issued by the IASB 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 of the Company 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 of the company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 HKSAAs 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 HKSAAs, we exercise professional judgement 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.

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung, Terence Ho.

Ernst & Young

Certified Public Accountants

Hong Kong

28 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	399,283	328,210
Cost of sales		(104,039)	(67,852)
Gross profit		295,244	260,358
Other income and gains	5	46,099	22,267
Selling and distribution expenses		(76,841)	(62,174)
Administrative expenses		(141,697)	(58,732)
Research and development costs		(41,357)	(25,577)
Impairment losses on financial and contract assets, net	6	(2,423)	(635)
Other expenses		(3,168)	(7,588)
Finance costs	7	(660)	(5,641)
PROFIT BEFORE TAX	6	75,197	122,278
Income tax expense	10	(6,975)	(1,380)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		68,222	120,898
Attributable to:			
Owners of the parent		68,222	120,898
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit for the year (RMB)	12	0.17	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,776	1,550
Right-of-use assets	14	8,733	3,951
Goodwill	15	674	674
Other intangible assets	16	16,311	6,603
Investment in an associate		40	40
Deferred tax assets	17	5,051	8,021
Pledged deposits	22	–	145,000
Total non-current assets		33,585	165,839
CURRENT ASSETS			
Trade receivables	18	276,959	132,048
Contract assets	19	42,287	36,345
Prepayments, other receivables and other assets	20	762,506	569,536
Due from related parties	30	32,890	12,231
Financial assets at fair value through profit or loss	21	17,006	3,983
Restricted cash	22	2,630	15,951
Cash and cash equivalents	22	209,445	457,892
Total current assets		1,343,723	1,227,986
CURRENT LIABILITIES			
Trade payables	23	45,922	38,197
Other payables and accruals	24	142,034	98,475
Interest-bearing bank and other borrowings	25	10,000	138,800
Lease liabilities	14	2,757	2,211
Tax payable		6,721	8,248
Total current liabilities		207,434	285,931
NET CURRENT ASSETS		1,136,289	942,055
TOTAL ASSETS LESS CURRENT LIABILITIES		1,169,874	1,107,894

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities	14	5,945	1,811
Total non-current liabilities		5,945	1,811
Net assets		1,163,929	1,106,083
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	275	273
Reserves	28	1,163,654	1,105,810
Total equity		1,163,929	1,106,083

Mr. Fu Xi
Director

Mr. Mao Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

Year ended 31 December 2020

	Notes	Attributable to owners of the parent						Total RMB'000
		Share capital RMB'000	Share Premium* RMB'000	Merger reserve and others* RMB'000 (note 28)	Share- based payment reserve* RMB'000	Statutory surplus reserve* RMB'000 (note 28)	Retained profits* RMB'000	
At 1 January 2020		70	–	19,416	43,722	16,332	174,224	253,764
Profit for the year and total comprehensive income		–	–	–	–	–	120,898	120,898
Capitalisation issue	26	135	(135)	–	–	–	–	–
Issue of shares from initial public offering	26	68	776,101	–	–	–	–	776,169
Share issue expenses		–	(44,748)	–	–	–	–	(44,748)
Appropriations to statutory surplus reserve	28	–	–	–	–	3,592	(3,592)	–
At 31 December 2020		273	731,218	19,416	43,722	19,924	291,530	1,106,083

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

Year ended 31 December 2021

	Notes	Attributable to owners of the parent						Total RMB'000
		Share capital RMB'000	Share Premium* RMB'000	Merger reserve and others* RMB'000 (note 28)	Share- based payment reserve* RMB'000	Statutory surplus reserve* RMB'000 (note 28)	Retained profits* RMB'000	
At 1 January 2021		273	731,218	19,416	43,722	19,924	291,530	1,106,083
Profit for the year and total comprehensive income		-	-	-	-	-	68,222	68,222
Equity-settled share-based payments	26	2	(2)	-	95,511	-	-	95,511
Final 2020 dividend declared		-	(105,887)	-	-	-	-	(105,887)
Appropriations to statutory surplus reserve	28	-	-	-	-	3,635	(3,635)	-
At 31 December 2021		275	625,329	19,416	139,233	23,559	356,117	1,163,929

* These reserve accounts comprise the consolidated reserves of RMB1,163,654,000 (2020: RMB1,105,810,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		75,197	122,278
Adjustments for:			
Depreciation of property, plant and equipment	6	1,484	1,218
Amortisation of intangible assets	6	1,269	719
Depreciation of right-of-use assets	6	2,892	2,097
Interest income	5	(4,971)	(4,113)
Finance costs	7	660	5,641
Equity-settled share-based payment expenses	6	95,511	–
(Gain)/loss on disposal of property, plant and equipment		(15)	18
Financial assets at fair value through profit or loss		77	17
Gain on disposal of right-of-use assets	14	(42)	–
Foreign exchange loss		3,671	9,255
		175,733	137,130
Increase in trade receivables		(144,911)	(78,629)
(Increase)/decrease in contract assets		(5,942)	18,382
Increase in prepayments, other receivables and other assets		(194,486)	(231,216)
(Increase)/decrease in amounts due from related parties		(20,659)	79
Decrease/(increase) in restricted cash		13,321	(15,901)
Increase in trade payables		7,725	14,721
Increase/(decrease) in other payables and accruals		50,886	(26,108)
		(118,333)	(181,542)
Income tax paid		(5,532)	(4,322)
		(123,865)	(185,864)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial products		(600,562)	(570,000)
Proceeds from disposal of financial products		587,462	566,000
Investment in an associate		–	(40)
Purchases of property, plant and equipment		(2,735)	(50)
Addition to intangible assets		(10,284)	(1,512)
Interest received		6,487	2,580
Proceeds from disposal of property, plant and equipment		40	45
		(19,592)	(2,977)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from the then shareholders		–	70
Proceeds from issue of shares under initial public offering	26	–	776,169
Payment of listing expenses		(6,857)	(36,051)
Decrease/(increase) in pledged deposits		145,000	(144,450)
New bank and other borrowings		1,040,212	521,643
Principal portion of lease payments		(2,952)	(2,184)
Repayment of bank and other borrowings		(1,169,012)	(444,323)
Borrowings from related parties		–	83,490
Repayment of loans from related parties		–	(86,931)
Dividends paid		(105,887)	(15,000)
Interest paid		(1,823)	(5,428)
Net cash flows (used in)/from financing activities		(101,319)	647,005
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Effect of foreign exchange rate changes, net		(3,671)	(9,255)
Cash and cash equivalents at beginning of the year		457,892	8,983
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
	22	209,445	457,892
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	212,075	618,843
Less: Restricted cash	22	(2,630)	(160,951)
		209,445	457,892

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1 CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 31 October 2019. The registered office address of the Company is Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, Cayman Islands.

During the year, the subsidiaries now comprising the Group were principally engaged in the provision of services to facilitate digital goods transactions and online store operating services.

In the opinion of the directors, the ultimate controlling shareholder of the Group is Mr. Fu Xi.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Notes	Date and place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Fulu (HONGKONG) LIMITED 福祿(香港)有限公司	(a)	21 November 2019 Hong Kong China	HKD1	100%	–	Investment holding
Wuhan Fulu Technology Co., Ltd. ("WFOE") 福祿(武漢)科技有限公司	(b)	25 December 2019 People's Republic of China ("PRC")/ Mainland China	RMB210,000,000	–	100%	Investment holding
Wuhan Fulu Internet Technology Co., Ltd. ("Wuhan Fulu") 武漢福祿網絡科技有限公司	(c)	24 March 2009 PRC/Mainland China	RMB19,688,935	–	100%	Provision of services to facilitate digital goods transactions and online stores operating services
Tibet Fulu Internet Technology Co., Ltd. 西藏福祿網絡科技有限公司	(c)	8 December 2016 PRC/Mainland China	RMB60,000,000	–	100%	Provision of services to facilitate digital goods transactions and online stores operating services
Wuhan Souka Technology Co., Ltd. 武漢搜卡科技有限公司	(c)	8 June 2017 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate digital goods transactions
Hubei Kejin Internet Technology Co., Ltd. 湖北氫金網絡科技有限公司	(c)	22 May 2017 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate digital goods transactions

1 CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Name of company	Notes	Date and place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Wuhan Tianshi Technology Co., Ltd. 武漢天識科技有限公司	(c)	24 July 2014 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate digital goods transactions
Wuhan Yiqiyou Internet Technology Co., Ltd. 武漢一起遊網絡科技有限公司	(c)	4 June 2012 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate digital goods transactions
Wuhan Lishuo Technology Co., Ltd. 武漢立碩科技有限公司	(c)	6 January 2017 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate digital goods transactions
Xinjiang Fulu Internet Technology Co., Ltd. 新疆福祿網絡科技有限公司	(c)	27 December 2016 PRC/Mainland China	RMB5,000,000	–	100%	Provision of services to facilitate digital goods transactions and online stores operating services
Kashgar Yiqiwan Internet Technology Co., Ltd. ("Kashgar Yiqiwan") 喀什一起玩網絡科技有限公司	(c)	14 March 2014 PRC/Mainland China	RMB10,000,000	–	100%	Provision of services to facilitate digital goods transactions and online stores operating services

- (a) The entity is registered as a limited liability enterprise under Hong Kong law.
- (b) The WFOE is registered as a wholly-foreign-owned-enterprise under PRC law.
- (c) These entities are limited liability enterprises established under PRC law and controlled through contractual arrangement ("Contractual arrangements") by the Company. They are collectively referred to as "PRC Operating Entities".

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The nature and the impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- (b) Amendment to IFRS 16 issued in May 2020 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any impact on the financial position and performance of the Group.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
IFRS 17	<i>Insurance Contracts²</i>
Amendments to IFRS 17	<i>Insurance Contracts^{2, 4}</i>
Amendments to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 — Comparative Information²</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current²</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract¹</i>
<i>Annual Improvements to IFRS Standards 2018–2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in May 2020 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018–2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

NOTES TO FINANCIAL STATEMENTS

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3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Business combinations and goodwill (Continued)***

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	33.3%
Furniture and electronic equipment	19% to 31.7%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with definite useful lives are amortised on the straight-line basis over the following useful economic lives.

Software	5 to 10 years
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The software mainly includes a self-developed transaction platform and its improvement. The Group determines its useful life based on historical experience of the previous version of such transaction platform.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the Group's ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (Continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	2 to 5 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

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3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on external credit ratings and historical credit loss experience of the industry, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, amounts due to related parties, and interest-bearing bank and other borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(i) Digital goods-related services

The Group provides services to facilitate upstream digital goods providers to sell digital goods to downstream users (“digital goods-related services”). The Group does not control specific digital goods prior to the purchase by the downstream users. Therefore, the Group is acting as an agent in the transactions. Revenue from the digital goods-related services is recognised at a point in time when the digital goods-related services are rendered.

The Group records the net amount that it retains from such completed transaction (including variable consideration contingent on the volume-based and/or performance-based rebates to be received) as revenue. Variable consideration is contingent on the volume-based and/or performance-based rebates to be received from the upstream digital goods providers, which are finalised on a periodical basis. The contingencies are in general resolved within three months subsequent to the end of the reporting period. Variable consideration is estimated using the expected value method in accordance with the terms as set out in the respective contractual arrangements with the upstream digital goods providers based on the Group’s historical experiences, and the variable portion is included in the transaction price to the extent that it is probable that a significant reversal will not occur.

(ii) Online store operating services

The Group operates online stores on major e-commerce platforms for digital goods vendors. The Group is primarily responsible for facilitating the digital goods transactions, designing and updating storefronts, formulating and implementing operating and marketing strategies, and providing IT and other services. In return, the Group receives variable considerations which are net service fees calculated based on the total amounts of the completed transactions through the aforementioned online stores. The Group does not control the specified digital goods before the specified digital goods are transferred to the ultimate customers, and therefore, the Group is acting as an agent in the transactions. Revenue from operating online stores for digital good vendors is recognised on a net basis at a point in time when each transaction through the online stores is completed or when the provision of the relation service is completed.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(ii) Online store operating services (Continued)

The contingencies are in general resolved within three months subsequent to the end of the reporting period. Variable consideration is estimated using the expected value method in accordance with the terms as set out in the respective contractual arrangements with the upstream digital goods providers based on the Group's historical experiences, and the variable consideration is estimated based on historical experience and will be included in the transaction price to the extent it is probable that a significant reversal will not occur in a subsequent period.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Share-based payments

The Company operates a restricted share unit scheme (the "Scheme") and a share ownership plan (the "Plan") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of the shares granted pursuant to the Scheme and the Plan is determined as the closing price on Hong Kong Stock Exchange at the grant date, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made.

NOTES TO FINANCIAL STATEMENTS

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3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits (Continued)

Accommodation fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These schemes cover the accommodation fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the accommodation fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

The PRC Operating Entities are mainly engaged in the provision of services to facilitate digital goods transactions in Mainland China, which falls in the scopes of "Catalogue of Restricted Foreign Investment Industries" and "Special Administrative Measures for Assess of Foreign Investment" that foreign investors are restricted to invest.

The Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Contractual Arrangements.

The Group considers that it controls the PRC Operating Entities, notwithstanding the fact that it does not hold a direct equity interest in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all the economic benefits from the business activities of the PRC Operating Entities through the Contractual Arrangements. Accordingly, the PRC Operating Entities have been accounted for as subsidiaries during the reporting period.

Revenue from contracts with customers-principal versus agent consideration

The Group applies judgements to determine its role as to facilitate upstream digital goods providers to sell digital goods to the downstream users. The Group does not control specific digital goods prior to transferred to the downstream users. Therefore, the Group concluded it is not principal in the transactions. Consequently, the Group recorded revenue on a net basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables, contract assets and financial assets included in prepayments, other receivables and other assets

The Group uses external credit ratings and historical credit loss experience of the industry to calculate ECLs for trade receivables and contract assets under the simplified approach and for refundable prepayments, deposits and other receivables under the general approach.

The observed default rates of the industry are adjusted with forward-looking information. For instance, if forecast economic conditions (i.e., urban registered unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of default in the industry, the historical default rates are adjusted. At the end of the reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The industry's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 18 and note 19 to the financial statements, respectively. The information about the ECLs on the Group's refundable prepayments, deposits and other receivables is disclosed in note 20 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 17 to the financial statements.

4 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

- (a) Leisure and entertainment, which primarily includes commissions earned from facilitating the sale of digital goods offered by leisure and entertainment content providers, operating services for online stores and other services provided to leisure and entertainment content providers;
- (b) Games, which primarily includes commissions earned from facilitating the sale of digital goods offered by game producers, operating services for online stores and other services provided to game producers;
- (c) Telecommunications, which primarily includes commissions earned from providing digital goods-related agency services and other services to telecom providers;
- (d) Lifestyle, which primarily includes commissions earned from facilitating the sale of digital goods offered by lifestyle service providers and other services provided to lifestyle service providers.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment operating profit, which is a measure of gross profit. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4 OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2021	Leisure and entertainment RMB'000	Games RMB'000	Telecommuni- cations RMB'000	Lifestyle RMB'000	Total RMB'000
Segment revenue					
External customers (note 5)	215,693	61,546	81,235	40,809	399,283
Segment cost	(40,545)	(23,523)	(33,323)	(6,648)	(104,039)
Gross profit	175,148	38,023	47,912	34,161	295,244
<i>Reconciliation:</i>					
Unallocated income and gains					46,099
Corporate and unallocated expense					(265,486)
Finance costs					(660)
Profit before tax					75,197
Year ended 31 December 2020	Leisure and entertainment RMB'000	Games RMB'000	Telecommuni- cations RMB'000	Lifestyle RMB'000	Total RMB'000
Segment revenue					
External customers (note 5)	155,952	100,979	47,118	24,161	328,210
Segment cost	(27,089)	(17,970)	(21,095)	(1,698)	(67,852)
Gross profit	128,863	83,009	26,023	22,463	260,358
<i>Reconciliation:</i>					
Unallocated income and gains					22,267
Corporate and unallocated expense					(154,706)
Finance costs					(5,641)
Profit before tax					122,278

4 OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) *Revenue from external customers*

All significant external customers of the Group are located in Mainland China. Accordingly, no geographical information of external customers is presented.

(b) *Non-current assets*

All significant non-current assets of the Group are located in Mainland China. Accordingly, no geographical information of segment assets is presented.

Information about major customers

Revenue derived from services to customers, which individually accounted for 10% or more of the Group's revenue, is set out below:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Customer A from the leisure and entertainment segment and the games segment	73,822	59,916
Customer B from the leisure and entertainment segment	72,592	52,784

5 REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Digital goods-related services	331,700	254,234
Online store operating services	58,151	67,635
Others	9,432	6,341
	399,283	328,210

NOTES TO FINANCIAL STATEMENTS

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5 REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

Year ended 31 December 2021

Segments	Leisure and entertainment RMB'000	Games RMB'000	Telecommuni- cations RMB'000	Lifestyle RMB'000	Total RMB'000
Types of services					
Provision of digital goods-related services	185,162	31,397	81,235	33,906	331,700
Provision of online store operating services	30,518	26,970	–	663	58,151
Others	13	3,179	–	6,240	9,432
Total revenue from contracts with customers	215,693	61,546	81,235	40,809	399,283
Timing of revenue recognition:					
Services transferred at a point in time	215,693	61,546	81,235	40,809	399,283

Year ended 31 December 2020

Segments	Leisure and entertainment RMB'000	Games RMB'000	Telecommuni- cations RMB'000	Lifestyle RMB'000	Total RMB'000
Types of services					
Provision of digital goods-related services	134,607	48,644	47,108	23,875	254,234
Provision of online store operating services	19,877	47,726	–	32	67,635
Others	1,468	4,609	10	254	6,341
Total revenue from contracts with customers	155,952	100,979	47,118	24,161	328,210
Timing of revenue recognition:					
Services transferred at a point in time	155,952	100,979	47,118	24,161	328,210

The Group's revenue was derived solely from its operation in Mainland China.

5 REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Provision of digital goods-related services

The performance obligation is satisfied upon delivery of specific digital goods from upstream digital goods providers to downstream digital goods users. Payment is generally due within 1–6 months from delivery. In addition, payment in advance is sometimes required based on credit evaluation.

Provision of online store operating services

The performance obligation is satisfied upon the completion of each digital goods transaction through the online stores of the digital goods vendors or upon delivery of the related services. Payment is generally due within 1–6 months from the rendering of the services.

The directors are of the opinion that there was no remaining performance obligation at the end of the reporting period.

Other income and gains

	Notes	2021 RMB'000	2020 RMB'000
Tax incentives on input value-added tax	(i)	23,446	8,640
Other government grants	(ii)	16,183	7,780
Interest income		4,971	4,113
Others		1,499	1,734
		46,099	22,267

- (i) The Group enjoyed the tax incentives on input value-added tax according to the related regulations in the PRC.
- (ii) Other government grants had been received from the PRC local government authorities as reimbursement of the Group's operating and research and development activities. There are no unfulfilled conditions related to these government grants.

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6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2021 RMB'000	2020 RMB'000
Employee benefit expense* (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		103,221	72,374
Equity-settled share-based payment expenses	27	95,511	–
Pension scheme contributions		7,635	544
Social security contributions and accommodation benefits		9,019	3,303
		215,386	76,221
Promotion and marketing expenses		55,374	52,850
Commission to third party platforms		45,719	37,265
Listing expenses		3,629	25,282
Foreign exchange loss		3,018	7,029
Platform usage fees and others		6,144	4,596
Auditor's remuneration		2,600	2,500
Depreciation of right-of-use assets	14	2,892	2,097
Depreciation of property, plant and equipment	13	1,484	1,218
Amortisation of intangible assets	16	1,269	719
Impairment losses on financial and contract assets, net		2,423	635

* Employee benefit expenses of RMB38,382,000 (2020: RMB23,782,000) were included in the research and development costs for the reporting period.

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on bank and other borrowings	329	5,098
Interest on loans from related parties	–	366
Interest on lease liabilities	331	177
	660	5,641

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Fees	758	263
Other emoluments:		
Salaries, allowances and benefits in kind	1,638	2,411
Pension scheme contributions	129	6
Equity-settled share-based payments	31,214	–
	32,981	2,417

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
— Mr. Wong Sincere	294	104
— Mr. Li Wai Chung	224	79
— Ms. Wang Yuyun	240	80
	758	263

There were no other emoluments payable to any independent non-executive director during the year (2020: Nil).

The above independent non-executive directors were appointed on 29 August 2020.

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8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors and the chief executive

There were no emoluments paid by the Group to the directors as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office during the year.

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Share-based payments <i>RMB'000</i>	Total <i>RMB'000</i>
2021					
Executive directors:					
— Mr. Fu Xi*	–	106	14	–	120
— Mr. Shui Yingyu	–	56	7	848	911
— Mr. Zhang Yuguo	–	357	36	7,451	7,844
— Mr. Zhao Bihao	–	650	36	1,640	2,326
— Mr. Mao Feng	–	469	36	21,275	21,780
	–	1,638	129	31,214	32,981
2020					
Executive directors:					
— Mr. Fu Xi*	–	96	1	–	97
— Mr. Shui Yingyu	–	332	1	–	333
— Mr. Zhang Yuguo	–	595	1	–	596
— Mr. Zhao Bihao	–	871	2	–	873
— Mr. Mao Feng	–	517	1	–	518
	–	2,411	6	–	2,417

* Mr. Fu Xi was also the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2020: Nil).

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two directors (2020: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Salaries, allowances and benefits in kind	1,492	3,153
Pension scheme contributions	103	4
Equity-settled share-based payments	24,068	–
	25,663	3,157

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
Nil to HKD1,000,000	–	3
HKD1,000,001 to HKD1,500,000	–	1
HKD8,000,001 to HKD8,500,000	1	–
HKD9,000,001 to HKD9,500,000	1	–
HKD13,500,001 to HKD14,000,000	1	–
	3	4

During the year, share-based payments were granted to three non-director and non-chief executive highest paid employees in respect of his services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such shares, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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10 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The majority of the Company's subsidiaries are domiciled in the PRC. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the reporting period was 25% of their taxable profits.

Wuhan Fulu was accredited as a high and new technology enterprise ("HNTE") in the year ended 31 December 2021. The HNTE certificate needs to be renewed every three years so as to enable Wuhan Fulu to enjoy the preferential CIT rate of 15%. For the year ended 31 December 2021, Wuhan Fulu was entitled to a Corporate Income Tax ("CIT") rate of 15% due to HNTE.

Wuhan Yiqiyou was accredited as an HNTE in the year ended 31 December 2020. For the year ended 31 December 2021, Wuhan Yiqiyou was entitled to a Corporate Income Tax rate of 15% as an HNTE.

Xinjiang Fulu was established in Horgos Development Zone of Xinjiang on 27 December 2016, which was exempted from income tax from the first year of operation for a five-year period according to the regulations set out by the local authority. Since Xinjiang Fulu started operation in 2017, the tax exemption period commenced from the year of 2017.

Kashgar Yiqiwan was established in Xinjiang and Kashgar Yiqiwan was entitled to a preferential tax rate of 15% for the year ended 31 December 2021 according to the strategy of large-scale western development in the PRC (Caishui [2020] No. 23).

Tibet Fulu was established in Tibet and Tibet Fulu was entitled to a preferential tax rate of 15% for the year ended 31 December 2021 according to the strategy of large-scale western development in the PRC (Caishui [2020] No. 23). According to the additional regional tax preference in Tibet, Tibet Fulu was entitled to a preferential CIT rate of 9% instead of 15%.

The major components of the income tax expense are as follows:

	2021	2020
	RMB'000	RMB'000
Current — PRC		
Charge for the year	4,005	5,358
Deferred tax (note 17)	2,970	(3,978)
Total tax charge for the year	6,975	1,380

10 INCOME TAX (CONTINUED)

A reconciliation of the tax expenses applicable to profit before tax at the statutory rate for the PRC to the tax expenses at the Group's effective tax rate is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	75,197	122,278
Tax at the PRC statutory income tax rate	18,799	30,570
Lower tax rates for specific entities	(19,404)	(25,651)
Tax effect of:		
Expenses not deductible for tax	13,538	175
Tax losses not recognised	–	5
Tax losses utilised from previous periods	(603)	(217)
Adjustments in respect of temporary differences not recognised in previous years	–	(732)
Tax incentives on eligible expenditures	(4,510)	(2,492)
Adjustments in respect of changes in tax rates on opening deferred tax	(118)	–
Adjustments in respect of current tax of previous periods	(727)	(278)
Tax charge at the Group's effective tax rate	6,975	1,380

11 DIVIDENDS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final declared and paid — HKD0.32 (2020: N/A) per ordinary share	105,887	–

On 12 May 2021, the final dividend of HKD0.32 (2020: N/A) per ordinary share of the Company for the year ended 31 December 2020 was approved and declared payable by the shareholders at the annual general meeting of the Company, and had been fully paid as of the date of this report.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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12 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 400,345,318 (2020: 329,166,667) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed unlocking of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2021 RMB'000	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	68,222	120,898
	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	400,345,318	329,166,667
Effect of dilution — weighted average number of ordinary shares:		
— Restricted share unit scheme	829,585	—
	401,174,903	329,166,667
Basic earnings per share (RMB)	0.17	0.37
Diluted earnings per share (RMB)	0.17	0.37

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13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and electronic equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2021				
At 1 January 2021:				
Cost	2,176	1,769	2,212	6,157
Accumulated depreciation	(2,176)	(1,388)	(1,043)	(4,607)
Net carrying amount	–	381	1,169	1,550
At 1 January 2021, net of accumulated depreciation				
Additions	2,121	614	–	2,735
Disposals	–	(25)	–	(25)
Depreciation provided during the year	(685)	(274)	(525)	(1,484)
At 31 December 2021, net of accumulated depreciation	1,436	696	644	2,776
At 31 December 2021:				
Cost	4,297	2,016	2,212	8,525
Accumulated depreciation	(2,861)	(1,320)	(1,568)	(5,749)
Net carrying amount	1,436	696	644	2,776
31 December 2020				
At 1 January 2020:				
Cost	2,176	2,065	2,212	6,453
Accumulated depreciation	(1,803)	(1,351)	(518)	(3,672)
Net carrying amount	373	714	1,694	2,781
At 1 January 2020, net of accumulated depreciation				
Additions	–	50	–	50
Disposals	–	(63)	–	(63)
Depreciation provided during the year	(373)	(320)	(525)	(1,218)
At 31 December 2020, net of accumulated depreciation	–	381	1,169	1,550
At 31 December 2020:				
Cost	2,176	1,769	2,212	6,157
Accumulated depreciation	(2,176)	(1,388)	(1,043)	(4,607)
Net carrying amount	–	381	1,169	1,550

NOTES TO FINANCIAL STATEMENTS

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14 LEASES

The Group has lease contracts for buildings used in its operations. Leases of buildings generally have lease terms between 2 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased asset.

(a) The movements of right-of-use assets and lease liabilities during the year are as follows:

	Right-of-use assets RMB'000	Lease liabilities RMB'000
31 December 2021		
As at 1 January 2021	3,951	4,022
Additions due to new leases	7,774	7,774
Disposal	(100)	(142)
Depreciation charge	(2,892)	N/A
Accretion of interest	N/A	331
Payments	N/A	(3,283)
As at 31 December 2021	8,733	8,702
Less: Current portion		2,757
Non-current portion		5,945
31 December 2020		
As at 1 January 2020	2,489	2,647
Additions due to new leases	3,559	3,559
Depreciation charge	(2,097)	N/A
Accretion of interest	N/A	177
Payments	N/A	(2,361)
As at 31 December 2020	3,951	4,022
Less: Current portion		2,211
Non-current portion		1,811

14 LEASES (CONTINUED)

(b) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest charge on lease liabilities	331	177
Depreciation charge of right-of-use assets	2,892	2,097
Gain on termination of a lease for lease modification	(42)	–
Total amount recognised in profit or loss	3,181	2,274

15 GOODWILL

RMB'000

Cost and net carrying amount at 31 December 2021 and 2020	674
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On 31 July 2017, goodwill arising from the acquisition of Wuhan Tianshi Technology Co., Ltd. amounting to RMB674,000 is allocated to the telecommunications cash-generating unit for impairment test.

In the opinion of the directors, no impairment provision for goodwill was made at the end of the year.

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16 OTHER INTANGIBLE ASSETS

	Software RMB'000
2021	
At 1 January 2021:	
Cost	7,689
Accumulated amortisation	(1,086)
Net carrying amount	6,603
At 1 January 2021, net of accumulated amortisation	6,603
Additions	10,977
Amortisation provided during the year	(1,269)
At 31 December 2021, net of accumulated amortisation	16,311
At 31 December 2021:	
Cost	18,666
Accumulated amortisation	(2,355)
Net carrying amount	16,311
2020	
At 1 January 2020:	
Cost	6,177
Accumulated amortisation	(367)
Net carrying amount	5,810
At 1 January 2020, net of accumulated amortisation	5,810
Additions	1,512
Amortisation provided during the year	(719)
At 31 December 2020, net of accumulated amortisation	6,603
At 31 December 2020:	
Cost	7,689
Accumulated amortisation	(1,086)
Net carrying amount	6,603

17 DEFERRED TAX

Deferred tax assets

The movements in deferred tax assets during the reporting period are as follows:

	Accruals and provision RMB'000	Losses available for offsetting against future profits RMB'000	Total RMB'000
At 31 December 2020 and 1 January 2021	5,018	3,003	8,021
Deferred tax (charged)/credited to profit or loss during the period	(3,253)	283	(2,970)
At 31 December 2021	1,765	3,286	5,051
At 31 December 2019 and 1 January 2020	4,043	–	4,043
Deferred tax credited to profit or loss during the year	975	3,003	3,978
At 31 December 2020	5,018	3,003	8,021

Deferred tax assets have not been recognised in respect of tax losses and temporary differences amounting to RMB857,000 (2020: RMB3,502,000), as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised. The above tax losses will expire in one to ten years.

Deferred tax liabilities

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

As at the end of the reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the subsidiaries of the Group established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in these subsidiaries in the PRC for which deferred tax liabilities have not been recognised was RMB412,394,000 (2020: RMB315,329,000).

NOTES TO FINANCIAL STATEMENTS

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18 TRADE RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	279,930	134,510
Impairment allowance	(2,971)	(2,462)
	276,959	132,048

The Group's credit period is generally one to six months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	213,208	101,235
4 to 6 months	25,857	22,034
7 to 12 months	33,777	7,271
Over 1 year	4,117	1,508
	276,959	132,048

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of year	2,462	1,963
Impairment losses, net	1,703	499
Written off	(1,194)	–
At end of year	2,971	2,462

18 TRADE RECEIVABLES (CONTINUED)

An impairment test is performed at the end of the reporting period using the simplified approach. To measure the ECLs, the balances are grouped based on similar loss patterns (i.e., by product or service type, customer type and rating). The provision rates are calculated on external credit ratings and historical credit loss experience. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables:

Class of credit rating	Notes	Expected credit loss rate %	Gross carrying amount RMB'000	Expected credit losses RMB'000
31 December 2021				
Class 1	(i)	0.001	30,722	–
Class 2	(ii)	0.92	248,532	2,295
Class 3	(iii)	100	676	676
Total			279,930	2,971
31 December 2020				
Class 1	(i)	0.001	45,968	–
Class 2	(ii)	0.92	86,880	800
Class 3	(iii)	100	1,662	1,662
Total			134,510	2,462

- (i) Class 1 customers receive external credit ratings equal to or above A- from Standard & Poor's.
- (ii) Class 2 customers receive no external credit ratings. They maintain active business with the Group and have good payment history.
- (iii) Class 3 customers have past due receivables and the Group has substantial evidence of the receivables being irrecoverable.

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19 CONTRACT ASSETS

	2021 RMB'000	2020 RMB'000
<i>Contract assets arising from:</i>		
Provision of digital goods-related services	42,370	36,415
Impairment allowance	(83)	(70)
	42,287	36,345

Contract assets are initially recognised for revenue earned from the provision of digital goods-related services as the receipt of consideration is conditional on meeting the contracts' conditions (i.e., annual transaction amounts or other performance indicators). Upon meeting the contracts' conditions, the amounts recognised as contract assets are reclassified to trade receivables.

The expected timing of recovery or settlement for contract assets as at the end of each reporting period is as follows:

	2021 RMB'000	2020 RMB'000
Within one year	42,287	36,345

The movements in the loss allowance for impairment of contract assets are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	70	154
Impairment losses, net	13	(84)
At end of year	83	70

19 CONTRACT ASSETS (CONTINUED)

An impairment test is performed at the end of the reporting period using the simplified approach. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets:

Class of credit rating	Notes	Expected credit loss rate %	Gross carrying amount RMB'000	Expected credit losses RMB'000
31 December 2021				
Class 1	(i)	0.001	33,337	–
Class 2	(ii)	0.92	9,033	83
Total			42,370	83
31 December 2020				
Class 1	(i)	0.001	28,815	–
Class 2	(ii)	0.92	7,600	70
Total			36,415	70

- (i) Class 1 customers receive external credit ratings equal to or above A- from Standard & Poor's.
- (ii) Class 2 customers receive no external credit ratings. They maintain active business with the Group and have good payment history.

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20 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Prepayments to digital goods providers:		
Non-refundable	503,404	413,183
Refundable	64,835	60,907
Deposits to digital goods providers	73,585	52,261
Other receivables	72,052	38,780
Prepaid value-added tax	46,811	23,263
Prepayments for various services	4,763	1,391
	765,450	589,785
Impairment allowance	(2,944)	(20,249)
	762,506	569,536

The movements in the loss allowance for impairment of refundable prepayments and deposits to digital goods providers and other receivables are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of year	20,249	20,029
Impairment losses, net	707	220
Written off	(18,012)	–
At end of year	2,944	20,249

Refundable prepayments, deposits and other receivables mainly represent refundable prepayments and deposits to digital goods providers, receivables from online platform operators (such as Tmall and JD) and other receivables from third parties. Where applicable, an impairment analysis is performed at the end of each reporting period by considering the probability of default of the industry. Except for specific balances for which a 100% ECL rate is determined, as at 31 December 2021 and 2020, the probability of default rate applied ranged from 0.001% to 1.38% and 0.001% to 1.40%, respectively. The loss given default was estimated to be 66.92% and 65.65% for each reporting period. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

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21 INVESTMENTS MEASURED AT FAIR VALUE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Unlisted investments, at fair value through profit or loss	17,006	3,983

The investments measured at fair value through profit or loss were wealth management products in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

22 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cash and bank balances	212,075	618,843
Less: Pledged for interest-bearing bank loans	–	145,000
Restricted cash (i)	2,630	15,951
Cash and cash equivalents	209,445	457,892
Denominated in RMB	207,928	202,400
Denominated in Hong Kong Dollar (“HKD”)	1,382	255,427
Denominated in United States Dollar (“USD”)	135	65
Denominated in RMB	209,445	457,892

(i) Restricted cash mainly represents cash received from customers and reserved in a bank supervised account for payments to merchants, which amounted to RMB2,456,000 (2020: RMB15,177,000).

The RMB is not freely convertible into other currencies, however, under PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23 TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	43,578	30,827
4 to 6 months	80	4,040
7 to 12 months	1,418	2,115
Over 12 months	846	1,215
	45,922	38,197

Trade payables are non-interest-bearing and are normally settled on credit terms within 3 months.

24 OTHER PAYABLES AND ACCRUALS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Receipts in advance	60,701	38,032
Payroll and welfare payables	22,009	22,979
Other tax and surcharges payables	55,408	20,870
Other payables and accruals*	3,916	16,594
	142,034	98,475

* Other payables are non-interest-bearing and repayable on demand.

25 INTEREST-BEARING BANK AND OTHER BORROWINGS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Bank loans		
Secured	–	138,800
Unsecured	10,000	–
	10,000	138,800

The Group's bank loans are unsecured and bore interest at a rate of 4.4% per annum during the year ended 31 December 2021 (2020: 4.00% to 4.45%).

26 SHARE CAPITAL

	2021 Number of shares	2020 <i>Number</i> <i>of shares</i>
Authorised:		
Ordinary shares of USD0.0001 each	500,000,000	500,000,000
	2021 RMB'000	2020 <i>RMB'000</i>
Issued and fully paid:		
403,315,928 (31 December 2020: 400,000,000) ordinary shares of USD0.0001 each	275	273

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
1 January 2020	100,000,000	70
Capitalisation issue of shares (i)	200,000,000	135
Issue of shares from initial public offering (ii)	100,000,000	68
At 31 December 2020 and 1 January 2021	400,000,000	273
Issue of shares under the restricted share unit scheme (iii)	3,315,928	2
At 31 December 2021	403,315,928	275

- (i) Pursuant to a written resolution of the shareholders of the Company passed on 29 August 2020, a total of 200,000,000 shares of USD0.0001 each were allotted and issued at fully paid and at par value to the shareholders as of the date immediately before the listing date on a pro rata basis by way of capitalisation from the Company's share premium account on the date of listing.
- (ii) In connection with the Company's initial public offering, 100,000,000 ordinary shares of HKD8.90 each were issued at USD0.0001 per share for a total cash consideration, before expenses, of HKD890,000,000 (approximated to RMB776,169,000).
- (iii) On 1 September 2021, the shares were granted and allotted to eligible participants at nil consideration.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

27 SHARE-BASED PAYMENTS

(a) *Restricted share unit scheme*

The board of directors (the “Board”) declared a restricted share unit scheme (the “Scheme”) on 19 August 2021 for the purpose of recognising and rewarding eligible persons for their contribution to the Group, attracting best available personnel and providing additional incentives to them so as to align the interests of these eligible persons with those of the Group and to further promote the success of the Group’s business.

The controlling shareholder of the Company established a trust in connection with the Scheme and appoint a trustee prior to the grant of any award by the Board or its delegate(s), which vest in the form of the shares (the “RSUs”).

Unless otherwise duly approved by the shareholders, the total number of shares underlying the Scheme shall not exceed 20,000,000 shares (excluding RSUs that have lapsed, been cancelled or forfeited in accordance with the Scheme rules) subject to an annual limit of 3% of the total number of issued shares of the Company at the relevant time.

On 1 September 2021, 3,315,928 shares of the Company were granted and allotted to eligible participants at nil consideration with vesting period of one month to four years, which represented approximately 0.82% of the Company’s shares in issue as at that date. The following restricted shares were outstanding under the Scheme during the year.

	Weighted average subscription price HKD per share	Number of shares
At 31 December 2020		–
Granted during the year	nil	3,315,928
Unlocked during the year	nil	(1,211,230)
Forfeited during the year	nil	(1,409)
At 31 December 2021		<u>2,103,289</u>

All of the participants have accepted and granted restricted shares by signing off the offer letters. As at 31 December 2021, the issuance of the restricted shares were completed. 1,211,230 restricted shares have been unlocked during the year ended 31 December 2021. And 906,681 restricted shares will be unlocked on 1 January 2022.

The fair value of restricted shares granted during the year ended 31 December 2021 was determined as the closing price on Hong Kong Stock Exchange at the grant date.

27 SHARE-BASED PAYMENTS (CONTINUED)

(a) *Restricted share unit scheme (Continued)*

The aggregated fair value of the restricted shares granted amounted to approximately RMB19,884,000. RMB19,619,000 will be charged to profit or loss as costs of the shares granted pursuant to the Scheme in aggregate from the date of grant to the date on which the shares are totally unlocked. The Group has recognized expense of RMB14,123,000 for the year ended 31 December 2021.

(b) *Share ownership plan*

The Group operates a share ownership plan (the “plan”) for the purpose of providing the eligible participants the opportunity to acquire equity interests from controlling shareholder and other co-founders at a preferential price to award the past performance and contribution of the eligible participants. The eligible participants include senior management personnel and key employees of the Company’s subsidiaries considered to be able to enhance the operations or the value of the Group.

The percentage of the equity interests and purchase price are solely at the discretion of the controlling shareholder.

On 8 October 2021, 13,528,250 shares of the Company held by the controlling shareholders was transferred to eligible participants, including four directors, at nil consideration with no vesting conditions, which represented approximately 3.35% of the Company’s ordinary shares issued. The fair value of the shares granted during the year ended 31 December 2021 was determined by the closing price at the grant date. The fair value of the shares amounting to RMB81,388,000 was charged to profit or loss for the year ended 31 December 2021.

28 RESERVES

Merger reserve

The merger reserve represents nominal value of paid-up capital of subsidiaries comprising the Group prior to the incorporation of the Company.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserve reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

NOTES TO FINANCIAL STATEMENTS

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29 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

The Group had non-cash additions to equity-settled share-based payment expenses of RMB95,511,000 (2020: Nil).

The Group had non-cash additions to right-of-use assets and lease liabilities of the leases of RMB7,774,000 (2020: RMB3,559,000), in respect of lease arrangements of office buildings.

(b) Changes in liabilities arising from financing activities

	Lease liabilities RMB'000	Due to related parties RMB'000	Interest-bearing bank and other borrowings RMB'000	Interest payables RMB'000	Dividends payable RMB'000
At 1 January 2021	4,022	–	138,800	1,163	–
Changes from financing cash flows	(3,283)	–	(128,800)	(1,492)	(105,887)
New leases	7,774	–	–	–	–
Accretion of interest	331	–	–	329	–
Disposal	(142)	–	–	–	–
Final 2020 dividend declared	–	–	–	–	105,887
At 31 December 2021	8,702	–	10,000	–	–
At 1 January 2020	2,647	3,441	61,480	950	15,000
Changes from financing cash flows	(2,361)	(3,441)	77,320	(5,251)	(15,000)
New leases	3,559	–	–	–	–
Accretion of interest	177	–	–	5,464	–
At 31 December 2020	4,022	–	138,800	1,163	–

30 RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Name	Relationship with the Company
Wuhan Xunyue Technology Co., Ltd.	Controlled by the controlling shareholder
Mr. Shui Yingyu	Director of the Company and key management personnel of the Group
Mr. Zhao Bihao	Director of the Company and key management personnel of the Group
Mr. Zhang Yuguo	Director of the Company and key management personnel of the Group
Mr. Mao Feng	Director of the Company and key management personnel of the Group
Mr. Xu Jian	Key management personnel of the Group
Mr. Ren Wei	Key management personnel of the Group
Mr. Chen Tianjun	Key management personnel of the Group
Mr. Ding Zhigang	Key management personnel of the Group
Mr. Huang Tao	Key management personnel of the Group
Ms. Yu Suhua	Key management personnel of the Group

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30 RELATED PARTY TRANSACTIONS (CONTINUED)

(a) *In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the reporting period:*

	2021 RMB'000	2020 RMB'000
<i>Borrowings from related parties</i>		
Mr. Shui Yingyu	–	65,000
Mr. Ding Zhigang	–	17,000
Wuhan Xunyue Technology Co., Ltd.	–	590
	–	82,590
<i>Repayments of loans to related parties</i>		
Mr. Shui Yingyu	–	68,430
Mr. Ding Zhigang	–	17,000
Wuhan Xunyue Technology Co., Ltd.	–	601
	–	86,031
<i>Purchase of right-of-use asset</i>		
Wuhan Xunyue Technology Co., Ltd.	926	–
<i>Interest paid to a related party</i>		
Mr. Shui Yingyu	–	366

30 RELATED PARTY TRANSACTIONS (CONTINUED)**(b) Outstanding balances with related parties:**

	Notes	2021 RMB'000	2020 RMB'000
<i>Due from related parties</i>			
Mr. Xu Jian	(i)	10,708	6,196
Mr. Mao Feng	(i)	9,392	–
Mr. Zhang Yuguo	(i)	3,171	–
Mr. Zhao Bihao	(i)	2,927	2,371
Mr. Ding Zhigang	(i)	2,255	–
Mr. Chen Tianjun	(i)	1,982	1,677
Mr. Ren Wei	(i)	1,938	1,911
Mr. Shui Yingyu	(i)	287	76
Ms. Yu Suhua	(i)	230	–
		32,890	12,231
<i>Lease liabilities</i>			
Wuhan Xunyue Technology Co., Ltd.		624	280

(i) The aggregate amounts due from key management personnel, amounting to RMB32,890,000 (2020: RMB12,231,000), were withholding individual income tax for equity-settled share-based payments.

(c) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefit in kind	5,249	4,697
Pension scheme contributions	340	11
Equity-settled share-based payments	51,691	–
Total compensation paid to key management personnel	57,280	4,708

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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31 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2021 and 2020 are as follows:

At 31 December 2021

Financial assets

	Financial assets at fair value through profit RMB'000	Financial assets or loss at amortised cost RMB'000	Total RMB'000
Financial assets measured at fair value through profit or loss	17,006	–	17,006
Trade receivables	–	276,959	276,959
Financial assets included in prepayments, other receivables and other assets	–	207,528	207,528
Due from related parties	–	32,890	32,890
Restricted cash	–	2,630	2,630
Cash and cash equivalents	–	209,445	209,445
	17,006	729,452	746,458

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	45,922
Financial liabilities included in other payables and accruals	64,617
Interest-bearing bank and other borrowings	10,000
	120,539

31 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at 31 December 2021 and 2020 are as follows: (Continued)

At 31 December 2020

Financial assets

	Financial assets at fair value through profit or loss <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Financial assets measured at fair value through profit or loss	3,983	–	3,983
Trade receivables	–	132,048	132,048
Financial assets included in prepayments, other receivables and other assets	–	131,699	131,699
Due from related parties	–	12,231	12,231
Pledged deposits	–	145,050	145,050
Restricted cash	–	15,901	15,901
Cash and cash equivalents	–	457,892	457,892
	3,983	894,821	898,804

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>
Trade payables	38,197
Financial liabilities included in other payables and accruals	54,626
Interest-bearing bank and other borrowings	138,800
	231,623

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Carrying amounts

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Financial assets		
Financial assets measured at fair value through profit or loss	17,006	3,983

Fair values

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Financial assets		
Financial assets measured at fair value through profit or loss	17,006	3,983

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to related parties and short-term interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the reporting period, the finance department analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation was reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

32 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	17,006	–	17,006

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	3,983	–	3,983

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2021 and 2020.

During each reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
As at 31 December 2021		
If HKD weakens against RMB	5	(69)
If HKD strengthens against RMB	(5)	69
As at 31 December 2020		
If HKD weakens against RMB	5	(12,771)
If HKD strengthens against RMB	(5)	12,771

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

Foreign Currency risk

The Group has transactional currency exposures. These exposures arise from cash and bank balances denominated in foreign currencies held by the units whose functional currency is the RMB. The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in the exchange rates of foreign currencies, with all other variables held constant, of the Group's profit before tax.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2021 and 2020

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of the reporting period. The amounts presented are gross carrying amounts for financial assets.

At 31 December 2021	12- month	Lifetime ECLs			Simplified approach	Total
	ECLs	Stage 1	Stage 2	Stage 3		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	-	-	-	-	279,930	279,930
Contract assets*	-	-	-	-	42,370	42,370
Financial assets included in prepayments, other receivables and other assets						
— Normal**	201,027	-	-	-	-	201,027
— Doubtful**	-	6,867	2,578	-	-	9,445
Restricted cash	2,630	-	-	-	-	2,630
Cash and cash equivalents	209,445	-	-	-	-	209,445
Due from related parties	32,890	-	-	-	-	32,890
	445,992	6,867	2,578		322,300	777,737

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2021 and 2020 (Continued)

At 31 December 2020	12- month ECLs		Lifetime ECLs		Simplified approach RMB'000	Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000			
Trade receivables*	-	-	-	-	134,510	134,510
Contract assets*	-	-	-	-	36,415	36,415
Financial assets included in prepayments, other receivables and other assets						
— Normal**	131,966	-	-	-	-	131,966
— Doubtful**	-	514	19,468	-	-	19,982
Pledged deposits	145,050	-	-	-	-	145,050
Restricted cash	15,901	-	-	-	-	15,901
Cash and cash equivalents	457,892	-	-	-	-	457,892
Due from related parties	12,231	-	-	-	-	12,231
	763,040	514	19,468		170,925	953,947

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on external credit ratings and historical credit loss experience is disclosed in note 18 and note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and amounts due to other related parties. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	On demand RMB'000	Within 1 year RMB'000	Within 2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2021					
Lease liabilities	-	2,778	6,735	-	9,513
Interest-bearing bank and other borrowings	-	10,440	-	-	10,440
Trade payables	1,498	44,424	-	-	45,922
Other payables	3,916	-	-	-	3,916
	5,414	57,642	6,735	-	69,791
At 31 December 2020					
Lease liabilities	-	2,552	2,222	-	4,774
Interest-bearing bank and other borrowings	-	138,859	-	-	138,859
Trade payables	6,155	32,042	-	-	38,197
Other payables	16,594	-	-	-	16,594
	22,749	173,453	2,222	-	198,424

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's net debt consists of interest-bearing bank and other borrowings less cash and cash equivalents. Total equity represents equity attributable to owners of the parent.

At the end of the reporting period, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of the reporting periods are as follows:

	2021 RMB'000	2020 RMB'000
Interest-bearing bank and other borrowings	10,000	138,800
Less: Cash and cash equivalents	209,445	457,892
Net debt	(199,445)	(319,092)
Equity attributable to owners of the parent	1,163,929	1,106,083
Total equity and net debt	964,484	786,991
Gearing ratio	N/A	N/A

34 EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period end, the Board recommended a final dividend of HKD0.176 per share for the year ended 31 December 2021, subject to the approval of shareholders at the Company's forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

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35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries	95,511	—*
Total non-current assets	95,511	—*
CURRENT ASSETS		
Due from related parties	577,797	535,030
Cash and cash equivalents	4,432	171,328
Total current assets	582,229	706,358
CURRENT LIABILITIES		
Other payables and accruals	86	—
Total current liabilities	86	—
NET CURRENT ASSETS	582,143	706,358
TOTAL ASSETS LESS CURRENT LIABILITIES	677,654	706,358
EQUITY		
Share capital	275	273
Reserves	677,379	706,085
TOTAL EQUITY	677,654	706,358

* The balance represents an amount of RMB1.

35 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2020	70	–	–	–	70
Loss for the year	–	–	–	(25,133)	(25,133)
Capitalisation issue	135	(135)	–	–	–
Issue of shares from initial public offering	68	776,101	–	–	776,169
Shares issue expenses	–	(44,748)	–	–	(44,748)
At 31 December 2020 and 1 January 2021	273	731,218	–	(25,133)	706,358
Loss for the year	–	–	–	(18,328)	(18,328)
Equity-settled share-based payments	2	(2)	95,511	–	95,511
Final 2020 dividend declared	–	(105,887)	–	–	(105,887)
At 31 December 2021	275	625,329	95,511	(43,461)	677,654

36 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022.



DEFINITIONS AND GLOSSARY

“AGM”	the forthcoming annual general meeting of the Company to be held on May 19, 2022
“Articles” or “Articles of Association”	the articles of association of the Company adopted on August 29, 2018 with effect from the Listing Date, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Company
“Auditor”	the external auditor of the Company
“Board”	the board of Directors
“Company” or “the Company” or “Fulu”	Fulu Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 2101)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the contractual arrangements, namely the PRC Holdcos and their respective subsidiaries
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to each of Mr. Fu Xi, Mr. Zhang Yuguo, Mr. Shui Yingyu, Mr. Zhao Bihao, FuXi Limited, Fuxu Holdings, Fuzhi Holdings, Zhangyuguo Holdings, Shuiyingyu Holdings and Zhaobihao Holdings or all of them as a group of Controlling Shareholders
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Directors”	director(s) of the Company
“Fulu Fuxi”	Beijing Fulu Fuxi Technology Co., Ltd. (北京福祿福喜科技有限公司), a limited liability company established in the PRC on December 31, 2021, a Consolidated Affiliated Entity and a 60%-owned subsidiary of Wuhan Fulu
“Fulu HK”	Fulu (Hongkong) Limited (福祿(香港)有限公司), a limited liability company established in Hong Kong on November 21, 2019, the parent company of WFOE and a wholly-owned subsidiary of the Company

DEFINITIONS AND GLOSSARY



“Fulu Open Platform”	our proprietary technology platform that offers applications to digital goods vendors and digital goods sales channels to enable them to better manage the digital goods and services transaction process
“Fulu Technology” or “WFOE”	Fulu (Wuhan) Technology Co., Ltd (福祿(武漢)科技有限公司), a limited liability company established in the PRC on December 25, 2019 and a wholly-owned subsidiary of the Company
“FuXi Limited”	FuXi Limited, a limited liability company incorporated in the BVI on June 27, 2019 and wholly owned by Mr. Fu Xi. It is one of our Controlling Shareholders
“Fuxu Holdings”	Fuxu Holdings Limited, a limited liability company incorporated in the BVI on September 12, 2019 and wholly owned by FuXi Limited. It is one of our Controlling Shareholders
“Fuzhi Holdings”	Fuzhi Holdings Limited, a limited liability company incorporated in the BVI on September 3, 2019 and wholly owned by FuXi Limited. It is one of our Controlling Shareholders
“Global Offering”	the Hong Kong public offering and the International offering of the Company’s Shares
“GMV”	gross merchandize value, which equals to the sales price per item (inclusive of VAT) multiplied by the number of items sold. The GMV of digital goods transactions we facilitated as disclosed in this annual report excludes the GMV of digital goods transactions that occur in online stores we operate for digital goods vendors
“Group” or “the Group”, “we”, “us”, or “our”	the Company, our subsidiaries and the Consolidated Affiliated Entities from time to time, or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the subsidiaries as if they were the subsidiaries of the Company at the relevant time (or the Company and any one or more of its subsidiaries, as the context may require)
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC



DEFINITIONS AND GLOSSARY

“Hubei Kejin”	Hubei Kejin Network Technology Co., Ltd. (湖北氩金網絡科技有限公司), a limited liability company established in the PRC on May 22, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“IFRSs”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Kashgar Yiqiwan”	Kashgar Yiqiwan Network Technology Co., Ltd. (喀什一起玩網絡科技有限公司), a limited liability company established in the PRC on March 27, 2017, and one of the PRC Holdcos
“Latest Practicable Date”	March 28, 2021, the latest practicable date for ascertaining certain information in this annual report before bulk-printing of this annual report
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	September 18, 2020, being the date on which the Shares were listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Luzhi Holdings”	Luzhi Holdings Limited, a limited liability company incorporated in the BVI on September 20, 2019 and owned as to 14.52%, 3.65%, 2.99%, 2.72%, 2.72%, 34.36%, 10.24%, 3.39%, 3.21%, 7.14%, 11.00% and 4.06% by Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Xu Jian, Mr. Ren Wei, Mr. Mei Qiaojun, Mr. Li Jun, Mr. Ding Chao, Mr. Chen Tianjun and Mr. Tian Xuan, respectively
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange, which is independent from and operates in parallel with the GEM of the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

DEFINITIONS AND GLOSSARY



“Nomination Committee”	the nomination committee of the Company
“PRC” or “China”	the People’s Republic of China, for the purposes of this annual report only and except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan
“PRC Holdcos”	Kashgar Yiqiwan and Wuhan Fulu
“Prospectus”	the prospectus of the Company dated September 7, 2020
“PRC Legal Advisor”	Hubei Dewell & Partners Law Firm (Wuhan Area of Hubei Pilot Free Trade Zone), acting as legal counsel as to PRC law to the Company
“Registered Shareholders”	the registered shareholders of the PRC Holdcos
“Remuneration Committee”	the remuneration committee of the Company
“Reporting Period”	the year ended December 31, 2021
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of US\$0.0001 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shuiyingyu Holdings”	Shuiyingyu Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“VIE(s)”	variable interest entity(ies)





DEFINITIONS AND GLOSSARY

“Tibet Fulong”

Tibet Fulong Venture Capital Management Partnership (Limited Partnership) (西藏福隆創業投資管理合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 12, 2017 and owned by Mr. Ren Wei as to 11.75%, Mr. Fu Xi as to 35.36%, Mr. Ding Chao as to 6.29%, Mr. Xu Jian as to 39.31%, Mr. Chen Tianjun as to 4.37%, Mr. Mei Qiaojun as to 1.18% and Mr. Li Jun as to 1.75%. Mr. Fu Xi is our Controlling Shareholder and an executive Director. Mr. Ren Wei, Mr. Xujian and Mr. Chen Tianjun are members of our senior management. Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our employees. Mr. Fu Xi is the sole general partner of Tibet Fulong

“Tibet Fulu”

Tibet Fulu Network Technology Co., Ltd. (西藏福祿網絡科技有限公司), a limited liability company established in the PRC on December 8, 2016, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu

“Tibet Fuxu”

Tibet Fuxu Venture Capital Management Partnership (Limited Partnership) (西藏福旭創業投資管理合夥企業(有限合夥)), a limited liability partnership established in the PRC on January 17, 2017 and owned by Mr. Fu Xi as to 37.74%, Mr. Yang Yuquan as to 15.01%, Mr. Liu Lufeng as to 3.78%, Ms. Shen Yaling as to 3.09%, Mr. Wang Qiang as to 2.81%, Ms. Guo Chenxi as to 2.81%, Mr. Zhang Yuguo as to 2.02%, Mr. Zhao Bihao as to 15.09%, Mr. Tian Xuan as to 4.19%, Mr. Xu Jian as to 0.11%, Mr. Ding Chao as to 1.72%, Mr. Mei Qiaojun as to 2.44%, Mr. Chen Tianjun as to 7.43% and Mr. Li Jun as to 1.75%. Mr. Fu Xi, Mr. Zhang Yuguo and Mr. Zhao Bihao are our Controlling Shareholders and executive Directors. Mr. Chen Tianjun and Mr. Xu Jian are members of our senior management. Mr. Yang Yuquan, Mr. Liu Lufeng, Ms. Shen Yaling, Mr. Wang Qiang, Ms. Guo Chenxi, Mr. Ding Chao, Mr. Mei Qiaojun and Mr. Li Jun are our employees. Mr. Tian Xuan is a former employee of the Group. Mr. Fu Xi is the sole general partner of Tibet Fuxu

“Tibet Huluwa”

Tibet Huluwa Network Technology Co., Ltd. (西藏葫蘆娃網絡科技有限公司), a limited liability company established in the PRC on May 15, 2019, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu

“US\$”

U.S. dollars, the lawful currency of the United States of America

“VAT”

value-added tax

DEFINITIONS AND GLOSSARY



“Wuhan Fulu”	Wuhan Fulu Network Technology Co., Ltd. (武漢福祿網絡科技有限公司), a limited liability company established in the PRC on March 24, 2009, and one of our PRC Holdcos
“Wuhan Lishuo”	Wuhan Lishuo Technology Co., Ltd. (武漢立碩科技有限公司), a limited liability company established in the PRC on January 6, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Souka”	Wuhan Souka Technology Co., Ltd. (武漢搜卡科技有限公司), a limited liability company established in the PRC on June 8, 2017, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Tianshi”	Wuhan Tianshi Technology Co., Ltd. (武漢天識科技有限公司), a limited liability company established in the PRC on July 24, 2014, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Wuhan Xunyue”	Wuhan Xunyue Technology Co., Ltd (武漢訊悅科技有限公司), a limited liability company established in the PRC on April 17, 2015. Wuhan Xunyue is owned as to 60% by Mr. Fu Xi and 40% by Mr. Zhang Yuguo (both of whom are our executive Directors and Controlling Shareholders) and therefore a connected person of the Company
“Wuhan Yilu”	Wuhan Yilu Network Technology Co., Ltd. (武漢億祿網絡科技有限公司), a limited liability company established in the PRC on November 19, 2015, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Kashgan Yiqiwan
“Wuhan Yiqiyou”	Wuhan Yiqiyou Network Technology Co., Ltd. (武漢一起遊網絡科技有限公司), a limited liability company established in the PRC on June 4, 2012, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu





DEFINITIONS AND GLOSSARY

“Xinjiang Fulu”	Xinjiang Fulu Network Technology Co., Ltd. (新疆福祿網絡科技有限公司), a limited liability company established in the PRC on December 27, 2016, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Xinjiang Huluwa”	Xinjiang Huluwa Network Technology Co., Ltd. (新疆葫蘆娃網絡科技有限公司), a limited liability company established in the PRC on February 25, 2019, a Consolidated Affiliated Entity and a wholly-owned subsidiary of Wuhan Fulu
“Zhangyuguo Holdings”	Zhangyuguo Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“Zhaobihao Holdings”	Zhaobihao Holdings Limited, a limited liability company incorporated in the BVI on June 25, 2019. It is one of our Controlling Shareholders
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the printing date of this annual report.

The English names of the PRC entities, PRC laws or regulations, and the PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.