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Application Proof of

Quwan Holding Limited

趣丸集團

(the “Company”)

(A company incorporated in the Cayman Islands with limited liability)

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Quwan Holding Limited 趣丸集團

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the : [REDACTED] Shares (subject to the
[REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] Shares (subject to
reallocation)
Number of [REDACTED] : [REDACTED] Shares (subject to
reallocation and the [REDACTED])
[REDACTED] : HK\$[REDACTED] per [REDACTED]
plus brokerage of 1.0%, SFC
transaction levy of 0.0027% and Hong
Kong Stock Exchange trading fee of
0.005% (payable in full on application
in Hong Kong dollars, subject to
refund)
Nominal value : US\$0.0001 per Share
[REDACTED] : [REDACTED]

Joint Sponsors, [REDACTED]

**Goldman
Sachs**

 **CICC 中金公司**

Jefferies

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The [REDACTED] is expected to be determined by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED].

The [REDACTED] will be not more than HK\$[REDACTED] and is currently expected to be not less than HK\$[REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

The [REDACTED] (on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] range below that stated in this Document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.52ft.com) not later than the morning of the last day for lodging applications under the [REDACTED]. For further information, please refer to the sections headed "Structure and Conditions of the [REDACTED]" and "How to apply for [REDACTED]" in this Document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See the section headed "[REDACTED]" in this Document.

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this Document, including the risk factors set out in the section headed "Risk Factors" in this Document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be [REDACTED], [REDACTED], pledged, or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) exception in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being [REDACTED] and [REDACTED] (i) solely to QIBs pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

[REDACTED]

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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IMPORTANT NOTICE TO PROSPECTIVE [REDACTED]

This Document is issued by us solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this Document pursuant to the [REDACTED]. This Document may not be used for the purpose of making, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Document in any jurisdiction other than Hong Kong. The distribution of this Document for purposes of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Document and the [REDACTED] to make your [REDACTED] decision. The [REDACTED] is made solely on the basis of the information contained and the representations made in this Document. We have not authorized anyone to provide you with information that is different from what is contained in this Document. Any information or representation not contained nor made in this Document and the [REDACTED] must not be relied on by you as having been authorized by us, the Joint Sponsors, [REDACTED], any of our or their respective directors, officers, employees, agents, or representatives of any of them or any other parties involved in the [REDACTED].

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SUMMARY

This summary aims to give you an overview of the information contained in this Document. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to [REDACTED] in the [REDACTED]. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in “Risk Factors” in this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

What We Do

We are the largest voice-based mobile social platform and the largest gamer-centric mobile social platform in China in terms of average MAUs in the first half of 2021, according to Frost & Sullivan. With our diversified product features and functions, we encourage social interactions among our users, and through voice-based and other real-time forms of interactions and entertainment offerings, facilitate the creation of genuine and lasting social relationships.

We operate the *TT Chat* app, our flagship mobile app, with 16.2 million average MAUs in the first half of 2021. Through its interactive functions, *TT Chat* app encourages communications and promotes interactions for users across different demographics. Its core function matches users who may be originally unknown to each other based on their individual profiles and entertainment and social needs in a voice chat room setting, creating a socially engaging and fun experience with rich interactive features and entertainment scenarios. Among these scenarios, gaming is one attractive entry point given its popularity and cohesiveness among users. *TT Chat* app strives to improve the game co-experience for our users, through finding everyone the most suitable game buddies with the right levels of skills, playing styles and preferences, and other relevant game facilitation attributes. Our deep understanding of the rising generation and their broader social needs allows us to create a highly interactive social environment that encourages our users to explore new areas of interest through voiced-based social interactions.

Our User Base

We have a fast-growing, large and highly engaged user base. Our users are tech savvy, and constantly exploring new social connections with others with similar interests and passions. As of June 30, 2021, over 90% of our users were aged 30 or below based on information available to us. During the first half of 2021, our users spent an average of approximately 158 minutes every day in our voice chat rooms, and our users initiated over 850,000 voice chat rooms on average every day, which increased by 45.6% compared to the same period of 2020. In addition to voice chat rooms tailored for popular games, we offer casual games and other social entertainment scenarios on our platform for users to relax and socialize after gameplay to further increase user time spent. We have a balanced gender distribution among our paying users, approximately 43% of which were female in June 2021.

SUMMARY

How We Generate Revenue

We primarily monetize our services through users’ consumption of virtual items sold on our *TT Chat* app as they interact with other users and hosts as well as membership subscriptions. Purchase and consumption scenarios are seamlessly integrated into the diversified social networking and entertainment features and functions on our platform, where users can purchase a diverse selection of virtual items and send them as gifts to others, to express themselves and deepen their social relationships with friends made on our platform. Such virtual items mainly include consumable virtual gifts to be presented to other users and privileges that allow the user to showcase their virtual identities in a voice chat room.

We take a portion of the virtual items’ value when users consume their virtual items on our platform. For details of how we recognize revenues under different scenarios, see “Business – Our Monetization.”

- We design certain types of our voice chat rooms with features and functions that encourage multi-way interactions among multiple users as well as between users and hosts, where our users can send virtual gifts to each other and to the hosts. Functions and features offered in such multi-way interaction scenarios are part of our value-added services.
- We also contract with hosts who broadcast entertainment contents mainly in audio streaming rooms to a large audience of users who can send virtual gifts to hosts to show their appreciation and support. Functions and features offered in such audio streaming scenarios are part of our audio entertainment services.

To elevate our brand and enhance our value propositions to our users, we also engage in other businesses, such as esports team operations, game distribution in China and voice-based social network operations in the overseas market, which also provide us with attractive monetization and marketing opportunities.

OUR STRENGTHS

We believe that the following competitive strengths differentiate us from our competitors and enable us to fulfill our mission and achieve long-term success.

- Leading Voice-based, Gamer-centric Social Platform
- Large, Fast-growing and Highly Engaged User Community
- Comprehensive Product Features Fulfilling Broad and Evolving Social Needs
- Advanced Technological Infrastructure
- Compelling Community Value Resulting In Strong Monetization Potential
- Visionary, Passionate and Experienced Leadership

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OUR STRATEGIES

We intend to achieve our mission and further solidify our leadership position by focusing on the following growth strategies:

- Drive Healthy and High-quality User Base Expansion
- Engage User Community with Diversified Offerings
- Enhance Technology Capabilities
- Nurture New Initiatives with Industry Partners
- Explore Overseas Expansion Opportunities

RISK FACTORS

An [REDACTED] in the [REDACTED] involves significant risks. You should carefully consider all of the information in this Document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the “Financial Information” section, before deciding to [REDACTED] in the [REDACTED]. Some of the major risks we face relate to:

- our ability to maintain and increase our user base and user engagement;
- the effectiveness of our monetization strategies and the sustainability of our revenue and profit;
- our ability to develop and provide our users with new features and services;
- the growth of our industry and the market acceptance of our platform and services;
- our ability to attract and foster a vibrant community of hosts;
- our ability to keep up with technological developments and evolving user expectations;
- our ability to cope with changes in popularities of games and adapt to regulatory developments that affect the mobile game industry;
- our ability to compete effectively against our current or potential competitors;
- the fact that the laws, regulations and official guidance relating to our business are complex, evolving rapidly and may be subject to further changes;
- our ability to obtain and maintain the required regulatory licenses and approvals; and
- the effectiveness of our content monitoring system in preventing misconduct on our platform.

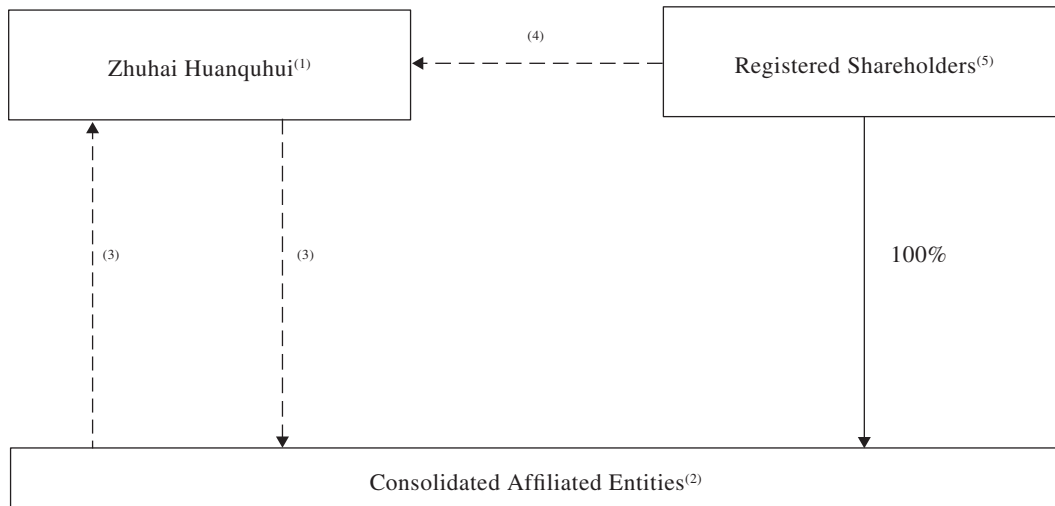
CONTRACTUAL ARRANGEMENTS

The business of Guangzhou Quwan and its subsidiaries involves (i) production and operation of audio content, which falls within the scope of radio and television program production and operation service; (ii) provision of online video content, which falls within the scope of internet audio-visual programs services; (iii) production, distribution and streaming of online audio content, online music and entertainment and online performance, which falls within the scope of internet cultural activities; and (iv) operation, distribution and streaming

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of online audio content, online music and entertainment, online performance and online social networking business, which falls within the scope of internet information services and hence is captured by the “value-added telecommunications services”. However, foreign investors are prohibited from holding equity interest in an entity conducting radio and television program production and operation business, internet audio-visual programs services and internet culture activities (except for music), and are restricted to hold equity interest in an entity conducting value-added telecommunication services (except for e-commerce, domestic multiparty communication, storage-and-forward and call center services) according to the current PRC laws and regulations. In order to comply with the PRC laws and regulations, maintain effective control over the business currently operated by Guangzhou Quwan and its subsidiaries that is subject to the foreign investment restriction and prohibition and receive all the of the economic interest of Guangzhou Quwan, Zhuhai Huanquhui entered into the Contractual Arrangement with Guangzhou Quwan, the Registered Shareholders and the general partners of the limited partnership Registered Shareholders. The Contractual Arrangements allow the results of operations, assets and liabilities, and cash flows of our Consolidated Affiliated Entities to be consolidated into our Company’s financial information. Please refer to the section headed “Contractual Arrangements” for further information.

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements after completion of the Reorganization:



“_____” Denotes legal and beneficial ownership in the equity interest

“-----” Denotes the Contractual Arrangements

Notes:

- (1) As of the Latest Practicable Date, Zhuhai Huanquhui is wholly-owned by Quwan HK, which is in turn wholly-owned by our Company.
- (2) As of the Latest Practicable Date, our Consolidated Affiliated Entities include Guangzhou Quwan and its subsidiaries, Guangzhou Shabake, Guangzhou Huancheng, Hainan Yuyue, Beijing Quyue, Guangzhou Qudian, Guangzhou Qujing, Xiamen Saimailei, Guangzhou Jingwan, Zhuhai Huitou Management Consulting Co., Ltd (珠海慧投资管理諮詢有限公司), Shanghai Xiaojianbing, Shanghai Chenlong, Chengdu Spherical World, Huayu Shiji, Yitian Lianxun and Huayu Tianxia.

For further details of the subsidiaries of Guangzhou Quwan, see the section headed “History, Reorganization and Corporate Structure”.

- (i) Guangzhou Shabake, Guangzhou Huancheng, Hainan Yuyue, Beijing Quyue, Guangzhou Qudian, Guangzhou Qujing, Zhuhai Huitou Management Consulting Co., Ltd and Huayu Shiji are directly wholly-owned by Guangzhou Quwan.

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- (ii) Shanghai Xiaojianbing, Shanghai Chenlong and Chengdu Spherical World are wholly-owned by Zhuhai Huitou Management Consulting Co., Ltd.
 - (iii) Xiamen Saimalei and Guangzhou Jingwan are wholly-owned by Guangzhou Qujing.
 - (iv) Yitian Lianxun is wholly-owned by Huayu Shiji.
 - (v) Huayu Tianxia is wholly-owned by Yitian Lianxun.
- (3) Zhuhai Huanquhui provides consultancy, technology and other services in exchange for service fees from Guangzhou Quwan. See “Contractual Arrangements – Exclusive Technical Service Agreement.”

The Registered Shareholders and the general partners of the Partnership Shareholders executed the Exclusive Call Option Agreement (as defined below) in favor of Zhuhai Huanquhui for the acquisition of 100% equity interests and/or assets in Guangzhou Quwan. See “Contractual Arrangements – Exclusive Call Option Agreement.”

- (4) The Registered Shareholders pledged as first charge all of their respective equity interests in Guangzhou Quwan to Zhuhai Huanquhui as security for their respective performance and the performance of Guangzhou Quwan under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreements and the Shareholder Voting Rights Proxy Agreement, as applicable. See “Contractual Arrangements – Equity Pledge Agreements.”

The Registered Shareholders executed the Powers of Attorney in favor of Zhuhai Huanquhui in respect of their respective rights as shareholders of Guangzhou Quwan.

- (5) Guangzhou Quwan is in turn owned by the Registered Shareholders, namely as to: (i) 35.40% by Mr. Song, our founder, chairman of our board of directors and Chief Executive Officer; (ii) 22.87% by Linxia Shouqu, a limited partnership organized in the PRC and an affiliate of Galaxy Nebula Limited, which is a holder of our ordinary shares, and the general partner of which is Mr. Song; (iii) 15.62% by Guiyang Shengqu, a limited partnership organized in the PRC, the general partner of which is Mr. Song; (iv) 9.82% by Wenzhou Huanqu, a limited partnership organized in the PRC majority owned by Mr. Song, the general partner of which is Mr. Song; (v) 5.00% by Guangzhou Quyi, a limited partnership organized in the PRC and an affiliate of Dream League Limited, which is a holder of our Series Angel preferred shares, and the general partner of which is Mr. Song Guowen, who is the brother of Mr. Song; (vi) 4.01% by Weiqu Investment, a limited partnership organized in the PRC majority owned by Mr. Song and in which he is the general partner; (vii) 3.97% by Mr. Qiu Zhizhao; and (viii) 3.31% by Mr. Chen Guangyao, our executive Director (The limited partnership Registered Shareholders as referred in aforementioned items (ii) to (vi), collectively as “**Partnership Shareholders**”).

For the risks relating to the Contractual Arrangements, please refer to the paragraph headed “Risk Factors – Risks Related to our Corporate Structure”.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Funplus and Vanker held approximately 23.67% and 12.28% of the total issued shares of our Company, respectively. Both of Funplus and Vanker are wholly owned by Future Exploration, which is in turn wholly owned by Cantrust (Far East) Limited as the trustee of the SK Family Trust, of which Mr. Song is the founder and settlor and the beneficiaries of which are Mr. Song and his family members. On September 23, 2021, Mr. Song entered into Voting Proxy Agreements, pursuant to which Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to the Shares held by Peerless Hero, Yun Qu and Fiery Dragon.

Therefore, as of the Latest Practicable Date, Mr. Song, through SK Family Trust, Future Exploration, Funplus and Vanker and by virtue of the Voting Proxy Agreements, controlled the voting rights of 74,439,822 Shares of the Company, representing approximately 51.57% of the total issued share capital of our Company. Mr. Song, Future Exploration, Funplus and Vanker are therefore regarded as our Controlling Shareholders. Immediately upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Global Employee Incentive Plan), our Controlling Shareholders will control approximately [REDACTED]% of the issued share capital of our Company and will remain as our Controlling Shareholders. Please refer to section headed “Relationship with the Controlling Shareholders” for further details.

SUMMARY

[REDACTED] INVESTORS

Since the establishment of our Company, we have secured [REDACTED] financing from Matrix Partners, the Skycus Entities, Beautiful Success Holdings Limited, Image Frame Investment (HK) Limited and 3W Global Fund. For further details of the identity and background of the [REDACTED] Investors, and the principal terms of the [REDACTED] Investments, see “History, Reorganization and Corporate Structure – [REDACTED] Investments.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, derived from the Accountant’s Report set out in Appendix I of this Document. The summary consolidated financial data set forth below should be read together with, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

Selected Consolidated Statements of Profit or Loss

The table below sets forth our consolidated statements of profit or loss for the years/periods indicated derived from our consolidated statements of profit or loss set out in the Accountant’s Report included in Appendix I to this Document:

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
				<i>(unaudited)</i>	
Revenues	432,866	836,327	1,493,420	602,010	1,173,466
Cost of revenues ⁽¹⁾	(124,466)	(308,430)	(522,201)	(197,394)	(482,478)
Gross profit	308,400	527,897	971,219	404,616	690,988
Selling and marketing expenses ⁽¹⁾	(164,257)	(269,144)	(600,361)	(240,645)	(531,545)
Administrative expenses ⁽¹⁾	(84,504)	(46,437)	(215,845)	(58,577)	(307,905)
Research and development expenses ⁽¹⁾	(44,074)	(88,156)	(143,403)	(60,365)	(125,721)
Net impairment losses on financial assets	(2,040)	(3,944)	(6,587)	(6,258)	(4,027)
Other (losses)/gains, net	(900)	9,087	13,099	(398)	14,497
Operating profit/(loss)	12,625	129,303	18,122	38,373	(263,713)
Finance income	1,068	2,114	8,520	2,665	3,580
Finance costs	(777)	(883)	(4,217)	(1,421)	(2,446)
Finance income, net	291	1,231	4,303	1,244	1,134
Share of net (loss)/profit of associates accounted for using equity method	(482)	(942)	(831)	27	(1,219)
Fair value changes on convertible redeemable preferred shares	–	–	(53,075)	–	(394,756)
Fair value changes on convertible preferred shares	–	–	(109,649)	–	(324,577)
Profit/(Loss) before income tax	12,434	129,592	(141,130)	39,644	(983,131)
Income tax credit/(expenses)	947	1,288	(12,879)	(10,184)	(5,517)

SUMMARY

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>			<i>(unaudited)</i>	
Profit/(Loss) for the year/period	13,381	130,880	(154,009)	29,460	(988,648)
Attributable to:					
Owners of the Company	13,381	130,880	(152,247)	29,639	(981,464)
Non-controlling interests	–	–	(1,762)	(179)	(7,184)
Non-IFRS Measures⁽²⁾:					
Adjusted EBITDA (non-IFRS measure)	65,402	147,741	190,400	94,212	29,223
Adjusted Net Income (non-IFRS measure)	52,720	141,704	151,302	71,398	4,195

Notes:

- (1) Total share-based compensation expenses recognized for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021 are allocated as follows:

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>			<i>(unaudited)</i>	
Share-based compensation expenses					
Cost of revenues	190	102	45	42	849
Selling and marketing expenses	523	2,990	172	86	3,850
Administrative expenses	36,607	7,082	107,533	35,960	111,242
Research and development expenses	2,019	650	472	237	19,023
Total	<u>39,339</u>	<u>10,824</u>	<u>108,222</u>	<u>36,325</u>	<u>134,964</u>

- (2) See “Financial Information – Non-IFRS Measures.”

Our overall revenue increases were primarily driven by the increases of our value-added services as well as the introduction of our audio entertainment services in the second half of 2020, reflected by the increase in our MAUs and the growth of our MPUs. The increase in cost of revenues was primarily due to the fast growth of our revenue, and the increase in revenue sharing fees, which constitute the vast majority of our cost of revenues, as a result of the rapid growth of the total consumption of our services. Our gross profit margin decreased from 71.2% in 2018 to 63.1% in 2019 mainly because we increased the revenues shared with guilds as part of our efforts to drive community interactions and also the revenues shared with game developers. Our gross profit margin then increased to 65.0% in 2020 mainly because we lowered the revenues shared with guilds and also due to the higher proportion of revenue generated from decentralized multi-user interaction consumption scenarios where users sent virtual gifts to other users. Our gross profit margin decreased from 67.2% in the six months ended June 30, 2020 to 58.9% in the same period in 2021, primarily because we launched audio entertainment services in the second half of 2020, which have a higher proportion of revenues shared to guilds than that of value-added services. Our losses for 2020 and the six months ended June 30, 2021 were primarily because we recorded fair value changes on convertible redeemable preferred shares of RMB53.1 million and RMB394.8 million in 2020 and the six months ended June 30, 2021, respectively, as well as fair value changes on convertible preferred shares of RMB109.7 million and RMB324.6 million in 2020 and the six months ended June 30, 2021, respectively, in relation to the increased valuation of our company. We do not expect to record any further fair value changes of the convertible redeemable preferred shares as such preferred shares will be re-designated from liabilities to equity

SUMMARY

as a result of the automatic conversion into ordinary shares immediately prior to the completion of the [REDACTED]. To a lesser extent, such losses were also attributable to increases in the share-based compensation and one-off expenses related to group reorganization.

Non-IFRS Measures

To supplement our consolidated financial statements presented in accordance with IFRSs, we use adjusted EBITDA and adjusted net income as additional financial measures, which are not required by, or presented in accordance with IFRSs. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that these measures provide useful information to [REDACTED] in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of adjusted EBITDA and adjusted net income may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and [REDACTED] should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial conditions as reported under IFRSs.

Adjusted EBITDA

We define adjusted EBITDA as profit/(loss) for the year/period by adding or lessening depreciation of property and equipment, amortization of intangible assets, depreciation of right-of-use assets, net impairment losses on financial assets, other (losses)/gains, net, share of net (loss)/profit of associates accounted for using equity method, income tax expenses/(credit), finance costs, finance income, fair value changes on convertible redeemable preferred shares, fair value changes on convertible preferred shares, share-based compensation expenses and one-off expenses related to group reorganization. The following table reconciles our adjusted EBITDA presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely profit/(loss) for the year/period.

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
Reconciliation of profit/(loss) for the year/period and adjusted EBITDA					
Profit/(Loss) for the year/period	13,381	130,880	(154,009)	29,460	(988,648)
Add/(Less):					
Depreciation of property and equipment	1,728	2,984	4,178	1,765	3,048
Amortization of intangible assets	4,768	4,417	24,696	7,652	19,540
Depreciation of right-of-use assets	4,002	5,356	7,329	3,441	7,308
Net impairment losses on financial assets	2,040	3,944	6,587	6,258	4,027
Other losses/(gains), net	900	(9,087)	(13,099)	398	(14,497)
Share of net loss/(profit) of associates accounted for using equity method	482	942	831	(27)	1,219
Income tax (credit)/expenses	(947)	(1,288)	12,879	10,184	5,517
Finance costs	777	883	4,217	1,421	2,446
Finance income	(1,068)	(2,114)	(8,520)	(2,665)	(3,580)

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	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
Fair value change of convertible redeemable preferred shares	–	–	53,075	–	394,756
Fair value changes on convertible preferred shares	–	–	109,649	–	324,577
Share-based compensation expenses	39,339	10,824	108,222	36,325	134,964
One-off expenses related to group reorganization*	–	–	34,365	–	138,546
Adjusted EBITDA	65,402	147,741	190,400	94,212	29,223

Note:

* For details, see Note 25 to the Accountant’s Report set out in Appendix I to this Document

Adjusted Net Income

We define adjusted net income as profit/(loss) for the year/period by adding back share-based compensation expenses, fair value change of convertible redeemable preferred shares, fair value change of convertible preferred shares, fair value change of convertible notes and one-off expenses related to group reorganization. The following table reconciles our adjusted net income presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely profit/(loss) for the year/period.

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
Reconciliation of profit/(loss) for the year/period and adjusted net income					
Profit/(loss) for the year/period	13,381	130,880	(154,009)	29,460	(988,648)
Add:					
Share-based compensation expenses	39,339	10,824	108,222	36,325	134,964
Fair value change of convertible redeemable preferred shares	–	–	53,075	–	394,756
Fair value change of convertible preferred shares	–	–	109,649	–	324,577
Fair value change of convertible notes	–	–	–	5,613	–
One-off expenses related to group reorganization*	–	–	34,365	–	138,546
Adjusted net income	52,720	141,704	151,302	71,398	4,195

Note:

* For details, see Note 25 to the Accountant’s Report set out in Appendix I to this Document

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Our management considers that (i) share-based compensation expenses is a non-cash term, (ii) fair value change of convertible redeemable preferred share, fair value change of convertible preferred shares and fair value change of convertible notes are not indicative of our operating performance, and (iii) one-off expenses related to group reorganization are non-recurring and non-operational expenses. All such items are not directly indicative of the performance of our business operations. Therefore, to supplement our consolidated results which are prepared and presented in accordance with IFRS, we eliminate the impacts of such items in the calculation of non-IFRS measures. These measures could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year and from period to period. The non-IFRS measures should not be considered as a substitute for our results of operations or financial condition as reported under IFRS, and our presentation of these non-IFRS measures should not be viewed as an implication that our future results will be unaffected by unusual or non-recurring items. In addition, our non-IFRS measures may not be comparable to other similarly titled measures used by other companies, as they may define differently from similar terms on the non-IFRS measures.

Selected Consolidated Balance Sheet Items

The following table sets forth selected information from our consolidated balance sheets as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30, 2021
	<i>(RMB in thousands)</i>			
Total non-current assets	82,277	129,780	426,050	558,959
Total current assets	200,275	351,853	938,278	929,883
Total assets	282,552	481,633	1,364,328	1,488,842
Total non-current liabilities	21,052	19,913	1,074,064	2,327,802
Total current liabilities	153,119	280,995	535,933	461,715
Total liabilities	174,171	300,908	1,609,997	2,789,517
Share capital	–	–	47	47
Other reserves	179,914	196,065	36,620	195,696
Accumulated losses	(71,533)	(17,825)	(283,059)	(1,493,800)
Equity attributable to equity holders of the Company	108,381	178,240	(246,392)	(1,297,942)
Non-controlling interests	–	2,485	723	(2,733)
Total equity	108,381	180,725	(245,669)	(1,300,675)
Total equity and liabilities	282,552	481,633	1,364,328	1,488,842

Our net current assets increased from RMB47.2 million as of December 31, 2018 to RMB70.9 million as of December 31, 2019, primarily due to an increase in financial assets at fair value through profit or loss as a result of the increase of our wealth management products and an increase in amounts due from related parties. Our net current assets increased from RMB70.9 million as of December 31, 2019 to RMB402.3 million as of December 31, 2020,

SUMMARY

primarily due to an increase in cash and cash equivalents as a result of increases in cash generated from our operations and our [REDACTED] financing activities in 2020 and an increase in current amounts due from related parties, which were mainly related to certain loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors, which had been repaid in full as of June 30, 2021. Our net current assets increased from RMB402.3 million as of December 31, 2020 to RMB468.2 million as of June 30, 2021, primarily due to an increase in cash and cash equivalents as a result of increases in cash generated from our operations and our series C financing activities and a decrease in borrowings, partially offset by a decrease in amounts due from related parties as a result of full repayment of the loans we extended to Mr. Song Ke and his affiliates.

See “Financial Information – Discussion of Selected Items from the Consolidated Statements of Financial Position.”

Selected Consolidated Statements of Cash Flows Items

The following table sets forth our cash flows for the years/periods indicated:

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30, 2020	2021
	<i>(RMB in thousands)</i>			<i>(unaudited)</i>	
Net cash generated from/(used in) operating activities	100,323	197,344	258,096	142,498	(42,847)
Net cash (used in)/generated from investing activities	(102,095)	(154,324)	(316,534)	(158,945)	199,674
Net cash (used in)/generated from financing activities	(3,032)	(5,872)	609,339	183,457	13,819
Net increase/(decrease) in cash and cash equivalents	(4,804)	37,148	550,901	167,010	170,646
Cash and cash equivalents at the beginning of the year/period	45,966	41,162	78,310	78,310	629,319
Effects of exchange rate changes on cash and cash equivalents	-	-	108	(13)	(5,136)
Cash and cash equivalents at the end of the year/period	41,162	78,310	629,319	245,307	794,829

Working Capital

Our Directors are of the opinion that taking into account the estimated net [REDACTED] from the [REDACTED] and the expected cash generated from operating activities, we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

SUMMARY

Key Financial Ratio

We believe that total revenue growth, total gross margin and adjusted net margin can provide an important measure of the efficiency of our operations over time. The following table sets forth a summary of our total revenue growth, total gross margin and adjusted net margin for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
Total revenue growth (%)	–	93.2	78.6	–	94.9
Total gross margin (%) ⁽¹⁾	71.2	63.1	65.0	67.2	58.9
Adjusted net margin (%) ⁽²⁾	12.2	16.9	10.1	11.9	0.4

Notes:

- (1) Total gross margin equals gross profit divided by revenues for the year/period.
- (2) Adjusted net margin represents adjusted net income as a percentage of revenues of such year/period. For details of the adjusted net income, see “Financial Information – Non-IFRS Measures – Adjusted Net Income.”

Key Operating Metrics

We regularly review a number of key operating metrics to evaluate our business and measure our performance. The table below sets forth key operating metrics relating to our *TT Chat* app during each period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
Average MAUs (million)	2.2	5.4	12.3	10.0	16.2
Average MPUs (thousand)	161.9	385.6	643.9	670.1	826.8
Paying Ratio	7.3%	7.1%	5.3%	6.7%	5.1%

We monitor our average MAUs to measure the size of active user base and user engagement. Our average MAUs increased by 142.5% from 2.2 million in 2018 to 5.4 million in 2019, and further by 126.7% to 12.3 million in 2020. Our average MAUs also increased by 62.0% from 10.0 million in the six months ended on June 30, 2020 to 16.2 million in the six months ended on June 30, 2021. Such increases were primarily driven by the superior product features and user experience we offer and our branding success.

We monitor our average MPUs and the paying ratio to measure our ability to monetize our user base. Our average MPUs increased by 138.2% from 161.9 thousand in 2018 to 385.6 thousand in 2019, and further by 67.0% to 643.9 thousand in 2020. Our average MPUs also increased by 23.4% from 670.1 thousand in the six months ended on June 30, 2020 to 826.8 thousand in the six months ended on June 30, 2021. The increases were primarily attributable to our continuous cultivation of users’ engagement and consumption habits on our platform.

We experienced fluctuations in paying ratio during the Track Record Period. Overall, such fluctuations occurred because we are still in an early stage of monetization and have been mainly focused on growing our user base, with a view to cultivating users’ spending habits and willingness to pay in the long term. Our paying ratio was stable from 2018 to 2019, being 7.3% and 7.1%, respectively. The ratio fluctuated from 7.1% in 2019 to 5.3% in 2020, and from 6.7% in the first half of 2020 to 5.1% in the first half of 2021, primarily because the growth of our MAUs significantly outpaced that of the MPUs during such periods. We managed to acquire

SUMMARY

a large number of new users during these periods through our product development initiatives as well as our marketing efforts, including the audio entertainment services that we rolled out in the second half of 2020, while it may take some time for us to cultivate willingness to pay among such new users.

DIVIDEND AND DIVIDEND POLICY

For the years ended December 31, 2019 and 2020, the Guangzhou Quwan has declared special dividends of RMB69.4 million and RMB112 million, respectively. No dividends have been paid or declared by the Company during the year ended December 31, 2018 and the six months ended June 30, 2020. For details, see Note 25 to the Accountant’s Report set out in Appendix I to this Document.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves until the aggregate amount of such fund reaches 50% of its registered capital, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

Any future determination to pay dividends will be made at the discretion of our Directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors may deem relevant. As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be declared or paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. [REDACTED] should not purchase our shares with the expectation of receiving cash dividends.

[REDACTED]

SUMMARY

[REDACTED]

The total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of our [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), of which approximately RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and approximately RMB[REDACTED] is expected to be charged against equity upon the [REDACTED]. These [REDACTED] expenses mainly comprise professional fees paid and payable to professional parties, and [REDACTED] payable to the [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED]. The estimated amount of [REDACTED] expenses will account for approximately [REDACTED]% of the gross [REDACTED] of the [REDACTED] (assuming the [REDACTED] is not exercised).

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), we estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED] after deducting the [REDACTED] and other estimated expenses in connection with the [REDACTED]. We intend to use the net [REDACTED] from the [REDACTED] for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- approximately [REDACTED], or HK\$[REDACTED], will be used to invest in overseas expansion, our product offering, user growth and new business initiatives to cultivate our social and entertainment ecosystem;
- approximately [REDACTED], or HK\$[REDACTED], will be used for research and development to improve our user experience and strengthen our commercialization capabilities; and
- approximately [REDACTED], or HK\$[REDACTED], will be used for general corporate purposes, including working capital needs.

See “Future Plans and Use of [REDACTED]” for more details.

RECENT DEVELOPMENTS

On June 1, 2021, the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》) took effect, which provides that, among others, live streaming service providers are not allowed to provide minors under age 16 with an online live streaming host account registration service, and must obtain the consent from parents or guardians and verify the identities of the minors before allowing minors aged 16 or above to register live streaming host accounts. As of the Latest Practicable Date, we have not been subject to any material penalties in connection with protection of minors.

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combatting Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), or the July 6 Opinion, which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies. Along with the promulgation of the July 6 Opinion, laws and regulations regarding data security, cross-border data flow and management of confidential information are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process. As of the Latest Practicable Date, we have not received any inquiry, notice, warning or sanction regarding the [REDACTED] from the CSRC or any other PRC government authorities in such respect.

SUMMARY

On July 10, 2021, the CAC announced the Cybersecurity Review Measures (Consultation Draft) (《網絡安全審查辦法》(徵求意見稿)), or the Consultation Draft, for public consultations, which further restates and expands the applicable scope of the cybersecurity review. Pursuant to the Consultation Draft, on the basis of the Cybersecurity Review Measures currently in force, apart from the procurement of network products and services by critical information infrastructure operators, any data processing activity by data processors that affects or may affect national security shall be subject to the cybersecurity review as well. To our knowledge, as of the Latest Practicable Date, we have not been identified as a critical information infrastructure operator under current effective PRC laws and regulations. In accordance with the Consultation Draft, operators holding personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review when they apply for [REDACTED] in a foreign country. As of the Latest Practicable Date, we have not received any inquiry, notice, warning or sanction regarding the [REDACTED] from the CAC with respect to the Consultation Draft. For details regarding our cybersecurity compliance status and steps taken by us to further enhance our cybersecurity compliance, see “Business – Data Privacy and Cybersecurity.”

For risks related to changes in PRC laws, rules and regulations, see “Risk Factors – Risks Related to Doing Business in the PRC – We may be adversely affected by the complexity, uncertainties and changes in PRC laws, rules and regulations, particularly of internet businesses.”

IMPACTS OF THE COVID-19 OUTBREAK

Although the COVID-19 pandemic has caused general business disruptions in China and the rest of the world, it has not had any material adverse impacts on our results of operations as we have experienced an increase in our operational performance, user base and user engagement since 2020. In an effort to contain the spread of COVID-19, China took precautionary measures, such as imposing travel restrictions, quarantining individuals infected with or suspected of having COVID-19, encouraging employees of enterprises to work remotely, extending students’ school holidays and canceling public activities, among others. As people have more disposable time and attention span at home or in other indoor scenarios, they are more likely to use our services to cultivate more connections and engage in more online entertainment activities.

However, the duration and the development of the pandemic and its impact on our business are difficult to predict. For additional details, see “Risk Factors – Risks Related to Our Business and Industry – The COVID-19 pandemic brings uncertainties to our business, financial condition and prospects.”

PROFIT/(LOSS) ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2021

Our Directors estimate, in the absence of unforeseen circumstances and on the bases set out in the section headed “Appendix IIA – Profit/(Loss) Estimate” in this Document, the estimated consolidated profit/(loss) of our Group for the year ended December 31, 2021 to be not less/more than RMB[●] million. For more details, see “Financial Information – Profit/(Loss) Estimate for the Year Ended December 31, 2021” and the section headed “Appendix IIA – Profit/(Loss) Estimate” in this Document.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2021, the end of the period reported on the Accountant’s Report included in Appendix I to this Document.

APPLICATION FOR [REDACTED] ON THE STOCK EXCHANGE

We are applying for the [REDACTED] under Rule 8.05(3) of the Listing Rules and satisfy the market [REDACTED]/revenue test, among other things, with reference to (i) our revenue for the year ended December 31, 2020, being RMB1,493.4 million, which is significantly over HK\$500 million as required by Rule 8.05(3) of the Listing Rules; and (ii) our expected market [REDACTED] at the time of the [REDACTED], which, based on the low end of the [REDACTED] range, exceeds HK\$4 billion as required by Rule 8.05(3) of the Listing Rules.

DEFINITIONS

In this Document, unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this Document.

“%”	per cent
“2020 Global Employee Incentive Plan” or “2020 Plan”	the share incentive plan approved and adopted on December 31, 2020, the principal terms of which are set out in “Statutory and General Information – D. Employee Incentive Plan” in Appendix V to this Document
“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on [●] which shall become effective on the [REDACTED] and as amended from time to time, a summary of which is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV to this Document
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Huayu Shiji”	Beijing Huayu Century Technology Co., Ltd. (北京華禹世紀科技有限公司), a limited liability company established in the PRC on May 14, 2020 and one of our Consolidated Affiliated Entities
“Huayu Tianxia”	Beijing Huayu Tianxia Technology Co., Ltd. (北京畫娛天下科技有限公司), a limited liability company established in the PRC on November 19, 2015 and one of our Consolidated Affiliated Entities
“Beijing Quye”	Beijing Quye Internet Technology Co., Ltd. (北京趣躍網絡科技有限公司), a limited liability company established in the PRC on July 23, 2020 and one of our Consolidated Affiliated Entities

DEFINITIONS

“Board”	the board of directors of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Cayman Companies Act” or “Companies Act”	the Companies Act (As Revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	People’s Republic of China, except where the context requires otherwise and only for the purposes of this Document, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Chengdu Spherical World”	Chengdu Spherical World Technology Co., Ltd. (成都球形世界科技有限公司), a limited liability company established in the PRC on October 9, 2019 and one of our Consolidated Affiliated Entities
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, or “the Company”	Quwan Holding Limited (趣丸集團), an exempted company with limited liability incorporated in the Cayman Islands on May 29, 2019
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely Guangzhou Quwan and its subsidiaries established from time to time. See “History, Reorganization and Corporate Structure – Reorganization”
“Contractual Arrangements”	the series of contractual arrangements entered into among Zhuhai Huanquhui, Guangzhou Quwan, Registered Shareholders and the general partners of the limited partnership Registered Shareholders, details of which are described in the section headed “Contractual Arrangements” in this Document
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Song, Future Exploration, Funplus and Vanker. See the section headed “Relationship with the Controlling Shareholders” in this Document
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of our Company

DEFINITIONS

“Extreme Conditions”	any extreme conditions or events, the occurrence of which will cause interruption to the ordinary course of business operations in Hong Kong and/or that may affect the [REDACTED] or the [REDACTED]
“Fiery Dragon”	Fiery Dragon Limited, a limited liability company incorporated in the BVI on May 27, 2019, which is wholly owned by Qiu Zhizhao and a Shareholder of the Company
“Future Exploration”	Future Exploration, one of our Controlling Shareholders, a limited liability company incorporated in the BVI on July 21, 2021, which is controlled by Mr. Song
“Funplus”	Funplus (BVI) Limited, one of our Controlling Shareholders, a limited liability company incorporated in the BVI on September 10, 2019, which is controlled by Mr. Song
“Generation Z”	refers to the population born between the years 1990 and 2009

[REDACTED]

“Governmental Authority”	any governmental, regulatory, or administrative commission, board, body, authority, or agency, or any stock exchange, self-regulatory organization, or other non-governmental regulatory authority, or any court, judicial body, tribunal, or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign, or supranational
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[REDACTED]

DEFINITIONS

“Group”, “our Group”, “we”, “us”, or “our”	our Company, its subsidiaries and Consolidated Affiliated Entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries or Consolidated Affiliated Entities, such subsidiaries or Consolidated Affiliated Entities as if they were subsidiaries or Consolidated Affiliated Entities of our Company at the relevant time
“Guangzhou Huancheng”	Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), a limited liability company established in the PRC on March 15, 2016 and one of our Consolidate Affiliated Entities
“Guangzhou Jingwan”	Guangzhou Jingwan Culture Media Co., Ltd. (廣州競玩文化傳媒有限公司), a limited liability company established in the PRC on May 29, 2020 and one of our Consolidate Affiliated Entities
“Guangzhou Shabake”	Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), a limited liability company established in the PRC on October 21, 2015 and one of our Consolidate Affiliated Entities
“Guangzhou Qudian”	Guangzhou Qudian Network Technology Co., Ltd. (廣州趣電網絡科技有限公司), a limited liability company established in the PRC on June 30, 2021 and one of our Consolidated Affiliated Entities
“Guangzhou Quyi”	Guangzhou Quyi Enterprise Management Joint Enterprise (Limited Partnership) (廣州趣意企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on August 26, 2020, with Song Guowen, Mr. Song’s brother, as the general partner
“Guiyang Shengqu”	Guiyang Shengqu Enterprise Management Joint Enterprise (Limited Partnership) (貴陽盛趣企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on December 22, 2015, with Mr. Song as the general partner

DEFINITIONS

“Guangzhou Qujing”	Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), a limited liability company established in the PRC on November 21, 2019 and one of our Consolidated Affiliated Entities
“Guangzhou Quwan”	Guangzhou Quwan Network Technology Co., Ltd., (廣州趣丸網絡科技有限公司), a company incorporated in the PRC on December 13, 2014 and one of our Consolidated Affiliated Entities
“Hainan Yuyue”	Hainan Yuyue Network Co., Ltd. (海南娛躍網絡科技有限公司), a limited liability company established in the PRC on May 29, 2018 and one of our Consolidated Affiliated Entities
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “Hong Kong SAR” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

DEFINITIONS

[REDACTED]

“IAS”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRS”	International Financial Reporting Standards, amendments, and interpretations, as issued from time to time by the IASB
“Independent Third Party” or “Independent Third Parties”	any entity or person who, to the best of our Directors’ knowledge having made all due and careful enquiries, is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors”	Goldman Sachs (Asia) L.L.C., China International Capital Corporation Hong Kong Securities Limited and Jefferies Hong Kong Limited
“Latest Practicable Date”	[October 9], 2021, being the latest practicable date for ascertaining certain information in this Document before its publication
“Laws”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions
“Linxia Shouqu”	Linxia Shouqu Enterprise Management Joint Enterprise (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)), a limited partnership established in the PRC on February 18, 2020, with Mr. Song as the general partner

DEFINITIONS

[REDACTED]

“Listing Committee” the Listing Committee of the Stock Exchange

[REDACTED]

“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

“Main Board” the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange

“Memorandum” or
“Memorandum of Association” the amended and restated memorandum of association of our Company conditionally adopted on [●], 2022 which shall become effective on the [REDACTED] and as amended from time to time, a summary of which is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV to this Document

“MOFCOM” the Ministry of Commerce of the PRC (中華人民共和國商務部)

“Mr. Song” or “Mr. Song Ke” Mr. Song Ke (宋克), Chairman of the Board, an executive Director, the chief executive officer of the Company and one of our Controlling Shareholders

“NDRC” the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

“Nomination Committee” the nomination committee of the Board

DEFINITIONS

[REDACTED]

“PBOC”	the People’s Bank of China
“Peerless Hero”	Peerless Hero Limited, a limited liability company incorporated in the BVI on May 27, 2019, which is wholly owned by Chen Guangyao, one of our Directors
“PRC Legal Advisor”	Commerce & Finance Law Offices
“[REDACTED] Investment(s)”	the investment(s) in our Company undertaken by the [REDACTED] Investors prior to the [REDACTED], the details of which are set out in the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments” in this Document

DEFINITIONS

“[REDACTED] Investor(s)”	holders of the Series A Preferred Shares, the Series B Preferred Shares, the Series B+ Preferred Shares and the Series C Preferred Shares as described in the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments”
“Preferred Shares”	the Series Angel Preferred Shares, Series A Preferred Shares, the Series B Preferred Shares, the Series B+ Preferred Shares and the Series C Preferred Shares

[REDACTED]

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Quwan HK”	Quwan (HK) Limited, a company incorporated in Hong Kong on June 13, 2019 and a wholly-owned subsidiary of our Company
“Quyun Singapore”	Qyun Technology Singapore Pte. Ltd., a company incorporated in Singapore on July 14, 2020 and a wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the U.S. Securities Act
“Registered Shareholders”	the registered shareholders of Guangzhou Quwan as detailed in the section headed “Contractual Arrangements”

DEFINITIONS

“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the reorganization arrangements undertaken by our Group in preparation for the [REDACTED], details of which are set out in the section headed “History, Reorganization and Corporate Structure – Reorganization” in this Document
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“RSU(s)”	restricted share unit award(s) to be granted to participants under the 2020 Global Employee Incentive Plan
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Series Angel Preferred Share(s)”	the redeemable and convertible series Angel preferred shares of our Company with par value US\$0.0001 per share which were issued by our Company as described in the section headed “History, Reorganization and Corporate Structure – Major Shareholding Changes of our Group”
“Series A Preferred Share(s)”	the redeemable and convertible series A preferred shares of our Company with par value US\$0.0001 per share which were issued by our Company as described in the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments”

DEFINITIONS

“Series B Preferred Share(s)”	the redeemable and convertible series B preferred shares of our Company with par value US\$0.0001 per share which were issued to certain [REDACTED] Investors as described in the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments”
“Series B+ Preferred Share(s)”	the redeemable and convertible series B+ preferred shares of our Company with par value US\$0.0001 per share which were issued to certain [REDACTED] Investors as described in the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments”
“Series C Preferred Share(s)”	the redeemable and convertible series C preferred shares of our Company with par value US\$0.0001 per share which were issued to certain [REDACTED] Investors as described in the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investments”
“SFC”	Securities and Futures Commission of Hong Kong
“Shanghai Chenlong”	Shanghai Chenlong Information Technology Co., Ltd. (上海辰龍信息科技有限公司), a limited liability company established in the PRC on April 2, 2020 and one of our Consolidated Affiliated Entities
“Shanghai Xiaojianbing”	Shanghai Xiaojianbing Information Technology Co., Ltd. (上海小煎餅信息科技有限公司), a limited liability company established in the PRC on August 10, 2020 and one of our Consolidated Affiliated Entities
“Shareholder(s)”	holder(s) of our Share(s)
“Shares”	ordinary share(s) in the share capital our Company, with a nominal value of US\$0.0001 each
“SK Family Trust”	a trust established on July 21, 2021 by Mr. Song, as the settlor with Cantrust (Far East) Limited acting as the trustee and Mr. Song and his family members being the beneficiaries
	[REDACTED]
“State Council”	the State Council of the PRC (中華人民共和國國務院)

DEFINITIONS

“subsidiary” or “subsidiaries”	has the meaning ascribed thereto it in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“the Hong Kong Stock Exchange” or “the Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the financial years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021

[REDACTED]

“United States”, “U.S.” or “US”	United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”, “U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Vanker”	Vanker (BVI) Limited, one of our Controlling Shareholders, a limited liability company incorporated in the BVI on September 10, 2019, which is controlled by Mr. Song indirectly
“VAT”	value-added tax
“Wei qu Investment”	Zhangshu Wei qu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)), a limited partnership established in the PRC on December 22, 2015, with Mr. Song as the general partner
“Wenzhou Huanqu”	Wenzhou Huanqu Enterprise Management Joint Enterprise (Limited Partnership) (溫州歡趣企業管理合夥企業(有限合伙)), a limited partnership established in the PRC on January 20, 2020, with Mr. Song as the general partner

DEFINITIONS

[REDACTED]

“Xiamen Saimailei”	Xiamen Saimailei Technology Co., Ltd. (廈門塞邁雷科技有限公司), a company incorporated in the PRC on September 11, 2017 and one of our Consolidated Affiliated Entities
“Yitian Lianxun”	Beijing Yitian Lianxun Information Technology Co., Ltd. (北京一天連訊信息技術有限公司), a limited liability company established in the PRC on May 26, 2005 and one of our Consolidated Affiliated Entities
“Yun Qu”	Yun Qu Limited, a limited liability company incorporated in the BVI on October 16, 2020, which is wholly owned by Du Guo and a Shareholder of the Company
“Zhuhai Huanquhui”	Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), a company incorporated in the PRC on July 12, 2019 and a wholly-owned subsidiary of our Company

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this document in connection with us and our business. Some of these may not correspond to standard industry definitions.

“CAGR”	compound annual growth rate
“guild”	refers to an organized group of hosts led by a representative who sets up the guild that manages certain voice-based social entertainment chat rooms on our platform and recruits, manages, trains and supports its member hosts
“host”	refers to a user who contacted with a guild or with us to drive social interactions among users in our voice chat rooms and/or to broadcast audio entertainment contents on our platform, as the case may be
“monthly active users” or “MAUs”	refers to the number of unique user accounts, excluding spam accounts, that logged in to our <i>TT Chat</i> app in a given month at least once
“monthly paying users” or “MPUs”	refers to user accounts who paid for services offered on our <i>TT Chat</i> app in a given month at least once
“our platform”	refers to our flagship mobile app <i>TT Chat</i> (excluding its international version which currently does not have a material contribution to us)
“paying ratio”	refers to average MPUs as a percentage of average MAUs
“paying users”	refers to user accounts who paid for services offered on our <i>TT Chat</i> app at least once during a given period
“PC”	personal computer
“registered users”	refers to a user that has registered an account with our <i>TT Chat</i> app by providing required information and has logged in to our app at least once since registration. We calculate the number of registered users as the cumulative number of valid user accounts as of the end of a given period, and consequently, such number may not equal the number of active user accounts during the relevant period. Each individual user may have more than one user account registered with our <i>TT Chat</i> app, and consequently, the number of registered users we present in this document may not equal the number of distinct individuals who are represented by the registered users

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will,” “expect,” “anticipate,” “estimate,” “believe,” “going forward,” “ought to,” “may,” “seek,” “should,” “intend,” “plan,” “projection,” “could,” “vision,” “goals,” “aim,” “aspire,” “objective,” “target,” “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our business and growth strategies and our ability to implement such strategies;
- our ability to develop and manage our expanding operations;
- our ability to control operating costs and expenses;
- competition for, among other things, consumer spending, merchants, capital, technology and skilled personnel;
- our ability to maintain and enhance our brands;
- changes to regulatory and operating conditions in the industries in which we operate; and
- all other risks and uncertainties described in the section headed “Risk Factors.”

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution [REDACTED] against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments. All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

RISK FACTORS

An [REDACTED] in the [REDACTED] involves significant risks. You should carefully consider all of the information in this Document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the “Financial Information” section, before deciding to [REDACTED] in the [REDACTED]. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In any such event, the market price of the [REDACTED] could decline, and you may lose all or part of your [REDACTED].

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-Looking Statements” in this Document. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that may differ significantly from that of other countries.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We may not be able to successfully maintain and increase our user base and user engagement. If we fail to retain our existing users and further grow our user base, or if user engagement on our platform declines, our business and operating results may be materially and adversely affected.

The size of our user base and the levels of our user engagement are critical to our success. An important component of our business model is matching our users with game buddies accurately and timely by our algorithm. The more users we have and the higher their levels of engagement are, the more data our algorithm can leverage and the smarter it will be. Therefore, if we fail to retain our existing users, to attract new users or to keep our users engaged, we may not be able to provide our users with satisfactory matching experience, and our business and operating results will be materially and adversely affected.

In addition, we generate a substantial portion of our revenues from consumption of virtual items given between our users. Therefore, if our user base decreases or stops growing, our users become less active or interested, or the quality and quantity of our user base deteriorate, it is probable that they would spend less on our platform or access our platform less often in general. As a result, our business, financial condition and results of operations will be materially and adversely impacted.

RISK FACTORS

We experienced fluctuations in the number of our users and in the user engagement levels due to seasonality, market trend, regulatory environment, unexpected events, and other factors. We may continue to experience fluctuations in our user base or user engagement levels in the future. A number of factors could negatively affect user retention, growth and engagement, including if:

- we fail to make or keep our users interested in the diverse entertainment scenarios we offer;
- we fail to identify key changes in user preferences in a timely manner or effectively respond to changing user preferences;
- we fail to provide a satisfactory game buddy matching experience for gamers on our platform;
- our promotional expenses increase as a result of the increased traffic acquisition costs;
- we fail to introduce new and improved services, or if we introduce services that are not favorably received by users, especially the gamers;
- we fail to keep pace with changes in technologies;
- technical or other problems prevent us from delivering our services in a rapid and reliable manner or otherwise adversely affect the user experience;
- we suffer from negative publicity, fail to maintain our brand or if our reputation is damaged;
- we fail to address user concerns related to privacy and communication, safety, security or other factors; and
- there are adverse changes in our services that are mandated by, or that we elect to make to address, legislation, regulations or government policies.

Our monetization may not remain effective, and we cannot guarantee that our monetization strategies will be successfully implemented or generate sustainable revenues and profit.

We operate our voice-based, gamer-centric social platform using a revenue model whereby users can get free access to most functions on our platform and have the options to purchase virtual items to gift to other users on our platform. We have generated, and expect to continue to generate, our revenues primarily from users’ consumptions of virtual items on our platform. Our revenues and results of operation depend on our ability to convert more users to paying users and to increase their spending. Whether we can increase the number of paying users and average spending generated per paying user depends on many factors, and many of

RISK FACTORS

them are out of our control. For example, our users may be unwilling to pay for our services, we may fail to develop new services that are attractive enough to our existing paying users for them to pay, our paying users may have less disposable income as they need to meet financial obligations elsewhere, our paying users may no longer find our existing value-added services attractive or useful enough to purchase, and overall worsening economic conditions can lower disposable income for all existing paying users, causing them to spend less on our platform. We expect that our business will continue to be significantly dependent on revenue collected from paying users in the near future. Any decline in the number of paying users or average spending generated per paying user may materially and adversely affect our results of operations. Although our gamer-centric mobile social platform business has experienced significant growth in recent years, we may not achieve a similar growth rate in the future, as the user demand for this service may change, decrease substantially or dissipate, or we may fail to anticipate and serve user demands effectively.

Although we design the virtual item systems on our platform based on our knowledge about users’ preferences and behavior, there can be no assurance that users will continue to purchase and use our virtual items. If users’ spending habits change and they choose to only access our platform for free without additional purchases, we may not be able to continue to successfully implement the virtual item-based revenue model for our platform, in which case we may have to develop other value-added services or products to monetize our user base. We cannot guarantee that our attempts to monetize our user base will continue to be successful, profitable or widely accepted, and therefore the future revenue and income potential of our business are difficult to evaluate.

In addition, some of our current monetization methods such as host-driven audio entertainment are relatively recent innovations and their long-term sustainability has not been tested. Meanwhile, we will continuously explore new monetization methods and user retention strategies, which may or may not be a success. We cannot assure you that our efforts will continue to achieve satisfactory results. Neither could we assure you that our ongoing and future attempts to innovate our communities and monetize our users will always be successful, profitable or accepted, and therefore the income potential of our business is difficult to gauge.

Our efforts to develop and provide our users with new features and services may not be successful.

The industry in which we operate is evolving rapidly and users expect to see new features and experience new services offered by us within a relatively short period of time. However, developing and integrating new services and features could be expensive and time-consuming, and these efforts may not yield the benefits we expect to achieve at all. Over the years, we have been continually upgrading our *TT Chat* app. We have made *TT Chat* app a decentralized social entertainment platform that offers various user diversified social entertainment scenarios such as online dating, karaoke, talk shows and role play dubbing, as well as various casual games. We may continue to introduce significant changes to our existing services or develop and introduce new and unproven services and features. If new or enhanced services fail to attract or retain users, our operating results and financial performance may be materially and adversely affected.

RISK FACTORS

We face risks and uncertainties regarding the growth of the industry we are in and market acceptance of our platform and services, and our limited operating history with a relatively new business model in a rapidly evolving market could make it difficult to evaluate our business and growth prospects.

The growth of our industry and the level of demand and market acceptance of our platform and services are subject to a high degree of uncertainty. Our future operating results will depend on a number of factors, some of which are beyond our control. These factors include:

- the growth of mobile internet user base in our target markets;
- the demand for mobile social networking and entertainment in our target markets;
- user consumption behaviors;
- the popularity of esports among our target users;
- user acceptance of the “many-to-many” mobile voice-based interaction model or other interaction models that we offer, as compared to other forms of online interaction;
- general economic conditions, which would affect discretionary spending on social networking and entertainment; and
- the availability and popularity of other forms of online and mobile entertainment which may compete with us.

Our *TT Chat* app commenced operations in 2014 and we have since experienced a rapid growth in our user base and user spending. However, our growth in the recent years may not be indicative of our future performance, as our operating results represent a limited size of samples of operating results and may be hard to repeat in the future.

Many of the elements of our business are unique and evolving. The markets for gamer-centric mobile social platforms are rapidly developing and are subject to significant challenges, especially in terms of maintaining a stable paying user base and attracting new paying users, complying with changes in regulatory requirements on minor protection, online audio content and social interactions, as well as adapting to the regulatory developments affecting the mobile game industry. There is no guarantee that we may succeed in adapting to such changes in the markets. In addition, any new and experimental functions or services that we may develop and launch in the future may not be well received by our targeted users and may be affected by adverse industry trends such as evolving development, interpretation and implementation of applicable laws and regulations. See “– We are subject to regulations on online social networking and entertainment platforms, and failure to comply with the regulations may materially and negatively affect our reputation, business, financial condition and results of operations.”

RISK FACTORS

Our business depends on our ability to attract and foster a vibrant community of hosts.

Hosts play an important role in enhancing user experiences by solicit social interactions among users in social entertainment scenarios, which effectively improves our monetization efficiency. We face significant competition for hosts. See “Business – Suppliers and Procurement” for details about our contractual arrangements with hosts and guilds. If we are unable to attract and maintain our relationship with the hosts and guilds, our operating results and financial performance may be adversely affected.

In addition, the costs attributed to the revenue sharing fees with hosts have increased in China during the past few years for companies that provide audio entertainment services. If we are unable to manage such revenue sharing fees, we may incur more costs or otherwise lose opportunities to retain hosts on our platform. In addition, the compensation we pay to the hosts could significantly increase our cost of revenues and materially adversely affect our financial condition and results of operations.

If we fail to keep up with technological developments and evolving user expectations, we may fail to maintain or attract users, and our business and operating results may be materially and adversely affected.

We operate in a market characterized by rapidly changing technologies, evolving industry standards, new product and service announcements, new generations of product enhancements and changing user expectations. Accordingly, our performance and the ability to further monetize the services on our platform will depend on our ability to adapt to these rapidly changing technologies and industry standards, and our ability to continually innovate in response to both evolving demands of the marketplace and competitive services. There may be occasions when we may not be as responsive as our competitors in adapting our services to changing industry standards and the needs of our users.

Introducing new technologies into our systems involves numerous technical challenges, substantial amounts of capital and personnel resources and often takes many months to complete. For example, the market for mobile devices in China is highly fragmented, and the lower resolution, functionality, operating system compatibility and memory currently associated with the kaleidoscopic models of mobile devices in the Chinese marketplace may make the use of our services through these devices more difficult and impair the user experience. We intend to continue to devote resources to the development of additional technologies and services. We may not be able to effectively integrate new technologies on a timely basis or at all, which may decrease user satisfaction with our services. Such technologies, even if integrated, may not function as expected or may be unable to attract and retain a substantial number of mobile device users to use our *TT Chat* app. We also may not be able to protect such technology from being copied by our competitors. Our failure to keep pace with rapid technological changes may cause us to fail to retain or attract users or generate revenues, and could have a material and adverse effect on our business and operating results.

RISK FACTORS

If we are unable to compete effectively for users or user engagement against our current or potential competitors, our business and operating results may be materially and adversely affected.

Our major competitors primarily include other mobile social networking and entertainment platforms with an established presence in the industry, as well as potential new market entrants. Our competitors may have substantially more financial, user base, technological and other resources, as well as broader service or products offerings and can leverage their relationships to other service or products to gain a larger share of marketing budgets. We may be unable to compete successfully against these competitors or new market entrants, which may adversely affect our business and financial performance.

To better compete with competitors that may have more financial, user base, technological or other competitive advantages than us, we may be required to spend additional resources, which may adversely affect our profitability. Furthermore, if we are involved in disputes with any of our competitors that result in negative publicity to us, such disputes, regardless of their veracity or outcome, may harm our reputation or brand image and in turn lead to reduced number of users. Any legal proceedings or measures we take in response to competition and disputes with our competitors may be expensive, time-consuming and disruptive to our operations and divert our management’s attention.

We believe that our ability to compete effectively depends upon many factors both within and beyond our control, including:

- the popularity, usefulness, ease of use, performance and reliability of our services compared to those of our competitors, and the research and development abilities of us compared to our competitors;
- changes mandated by, or that we elect to make to address, legislation, regulations or government policies, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- our ability to monetize our services;
- our ability to attract, retain, and motivate talented employees;
- our ability to manage our operations cost-effectively; and
- our reputation and brand strength compared to our competitors.

RISK FACTORS

Our platform competes against other forms of social networking as well as other forms of entertainment for the discretionary time and spending of our users. Other forms of social networking, including traditional face-to-face socialization, text-based social networking tools or other interest-based social networking platforms, may be perceived by our users to offer more familiar or more enjoyable companionship. Other forms of entertainment, such as online video streaming, traditional PC and console games, as well as more traditional mediums such as television, movies and sports, are much more well-established in mature markets and may be perceived by our users to offer greater variety, affordability, interactivity and enjoyment. If we are unable to sustain sufficient interest in our platform in comparison to other forms of social networking or other forms of entertainment, including new forms of social networking and entertainment that may emerge in the future, our business model may no longer be viable.

If we fail to cope with changes in popularities of games, and if availability of popular games is limited for any reason, our financial condition and results of operations may be materially and adversely affected.

Gamers of a limited number of popular games are highly engaged on our platform and contribute significantly to the user traffic on our platform. For example, the number of our average daily active voice chat rooms where users played *Honor of Kings* reached over 212,000 in the six months ended June 30, 2021. Although we do not rely upon any licenses granted by game publishers and developers to operate our platform and provide our social entertainment services to our users, if availability of these popular games is limited for any reason, and if the game publishers and developers fail to obtain new licenses (if any) or such games are suspended from operation, the user engagement on our platform will be materially affected, and our operating results will be materially and adversely affected. For example, pursuant to the Notice of on Further Strengthening Regulation to Effectively Prevent Online Gaming Additions among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), the PRC government limits online gaming time for minors to an hour per day from 8 p.m. to 9 p.m. on Friday, Saturday, Sunday and legal holidays in the PRC starting from September 1, 2021 and all online games are required to be connected to the online game anti-fatigue compliance system and a real-name registration system of the PRC government. In September 2021, active users who were identified as under the age of 18 based on their real-name authentication accounted for less than 1% of our MAUs in the same month. Although our current operations have not yet been materially affected by such new regulation, the PRC government may continue to introduce additional restrictions on the online gaming industry in ways that adversely affect our users’ engagement with our platform.

We provide customized matching mechanisms, chat room features, and promotion events tailored for some popular online games to enhance our users’ gameplay experience. If we fail to upgrade these mechanisms, features and functions to adapt to the development of popular games and predict and address the preference of their players, or if we fail to roll out new mechanisms, features and functions that fit new popular games, we may not be able to successfully maintain and increase the number of our users and deepen their engagement.

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We are subject to regulations on online social networking and entertainment platforms, and failure to comply with the regulations may materially and negatively affect our reputation, business, financial condition and results of operations.

In August 2018, the National Office of Anti-Pornography and Illegal Publication, or the NOAPIP, the MIIT, the Ministry of Public Security, the Ministry of Culture and Tourism, the National Radio and Television Administration and the Cyberspace Administration of China jointly issued the Notice on Strengthen the Management of Live Streaming Service (《關於加強網絡直播服務管理工作的通知》), which required a real-name registration system for users to be put in place by live streaming service providers. Under this real-name registration system, we validate the identity information of the registered users primarily based on their mobile numbers. Currently, we are not required to obtain information such as legal names, citizen identification cards or other personal information during the registration process to validate the identify information of our users unless they are engaged hosts and/or withdraw the points. However, the PRC government may further tighten the real-name registration requirements or require us to implement a more thorough compulsory real-name registration system for all users on our platform, potential users may be deterred from registering with our platform, which may in turn negatively affect the growth of our user base and prospect.

In November 2020, the National Radio and Television Administration promulgated the Notice on Strengthening the Management of Online Show Live Broadcasting and E-commerce Live Broadcasting (《關於加強網絡秀場直播和電商直播管理的通知》) (“Notice 78”). In February 2021, the National Internet Information Office, the NOAPIP, the MIIT, Ministry of Public Security, the Ministry of Culture and Tourism, the State Administration for Market Regulation and the National Radio and Television Administration promulgated the Guiding Opinion on Strengthening the Management of Online Show Live Broadcasting (《關於加強網路直播規範管理工作的指導意見》) (“Notice 3”). Notice 78 and Notice 3 set forth registration requirements for platforms providing online show live broadcasting or e-commerce live broadcasting as well as requirements for certain live broadcasting businesses with respect to real-name registration, limits on user spending on virtual gifting, restrictions on minors on virtual gifting, live broadcasting review personnel requirements, content tagging requirements, and other requirements. We are still in the process of obtaining further guidance from regulatory authorities and evaluating the applicability and effect of the various requirements under Notice 78 and Notice 3 on our business. Any further rule-making under Notice 78 and Notice 3 or other intensified regulation with respect to live streaming may increase our compliance burden in the relevant business, and may have an adverse impact on our business and results of operations.

We received rectification orders from relevant PRC regulators in the past for non-compliant content. See “– We were ordered to rectify in the past for non-compliant content and other matters on *TT Chat* app by relevant PRC regulators, and any regulatory non-compliance or negative incident in this regard may materially and adversely affect our reputation, business, financial condition and results of operations” and “– The success of our business model is contingent upon our ability to provide a safe online environment for minors to experience and if we are not able to continue to provide a safe environment, our business will suffer

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dramatically.” We also do not have full control over the behaviors of our users and the content generated by them, and therefore cannot assure you that our platform would not be misused by others to engage in illegal or inappropriate activities. Due to the uncertainty of the evolving regulatory regime in the PRC, we may be subject to tightened implementation of applicable regulations in the future and additional restrictive measures may be imposed upon our platform. Such evolving changes in regulatory regime may adversely affect our results of operations and financial performance. Accordingly, we may be required to change our business strategies, substantially change the functions of our products, impose restrictions on user behaviors and content creation, or adjust our monetization methods. Also, we cannot assure you that our new products or features will meet the requirements of governmental authorities in China in a timely manner, or at all.

Our content monitoring system may not be effective in preventing misconduct by our users and misuse of our platform, and such misconduct or misuse may materially and adversely impact our business, financial condition and results of operations.

Our platform allows users to engage in voice-based interactions with each other and enjoy audio streaming and other social entertainment, among others. Our platform provides a virtual space for our users to discuss, share, comment and express themselves. Because we cannot guarantee that our control measures in place will be effective in controlling the activities conducted by our users and the content generated by them in real time, our platform may be misused by others to engage in illegal or inappropriate activities, or other activities that require permits, license or approval from the governmental authorities. If any illegal, inappropriate or unauthorized content is found on or linked to our platform, we as the service provider may be held liable for infringement of the rights of our hosts or users or violation of relevant PRC laws and regulations. The government may impose other legal sanctions against us, including, in serious cases, suspending or revoking the licenses needed to operate our platform.

We have deployed algorithm-based technologies and intelligent content-screening machines provided by third-party suppliers, supplemented by our employees and qualified staff outsourced from third parties, to identify and regulate illegal, fraudulent or inappropriate content or activities on our platform. See “Business – Content Management and Monitoring.” If our intelligent system fails to interpret the improper meaning of certain content, or if our monitoring team makes incorrect decision as to the legality of certain content, illegal or unauthorized content may become accessible to our users via our platform and expose us to various risks, which may materially and adversely impact our reputation, brand image, business, financial condition and results of operations.

Despite our efforts to monitor content on our platform and the activities of the hosts and users, our platform was previously subject to rectification orders imposed by the government authority in the past, including notifying Apple’s and Android’s App Stores to suspend the downloading of our *TT Chat app*. See “– We were ordered to rectify in the past for non-compliant content and other matters on *TT Chat app* by relevant PRC regulators, and any regulatory non-compliance or negative incident in this regard may materially and adversely affect our reputation, business, financial condition and results of operations.” As a result of

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such incidents, we have adopted a more stringent content monitoring system to meet the tightened regulatory standards and to screen and remove inappropriate content on our platform. However, we cannot assure you that our content monitoring system is sufficient to detect all improper or illegal content or activities in the future. We cannot assure you that we will not be subject to rectification orders, fines and other penalties in the future for improper or illegal content or activities on our platform. Moreover, our continued regulatory compliance efforts in this regard may be costly, as they may divert a significant amount of management time and financial resources. If we fail to effectively prevent misconduct by our platform users and misuse of our platform, our reputation, business, financial condition and results of operations may be materially and adversely affected.

We were ordered to rectify in the past for non-compliant content and other matters on *TT Chat* app by relevant PRC regulators, and any regulatory non-compliance or negative incident in this regard may materially and adversely affect our reputation, business, financial condition and results of operations.

We received rectification orders from relevant PRC regulators in the past for non-compliant content and other matters. For instance, in August 2019, the Office of the Central Cyberspace Affairs Commission of China, or the CAC notified Apple’s and Android’s App Stores to suspend the downloading of our *TT Chat* app and lifted the suspension on downloading of our *TT Chat* app in late November 2019 after our adoption of the requested enhanced monitoring measures. Our *TT Chat* app is currently available for download in all major app stores. Due to such temporary suspension, the growth of our user base and user engagement was adversely affected during the suspension period. See “Business – Content Management and Monitoring.” If non-compliance with PRC laws and regulations occurs again in the future or if the PRC government undertakes further actions against our mobile app, our mobile app may again be suspended from all app stores for an indefinite time, and we may be subject to other rectification orders or penalties and heightened regulatory scrutiny in the PRC, thereby having a material and adverse impact on our business, financial condition and business prospects.

If we fail to obtain or maintain the required regulatory licenses and approvals or if we fail to comply with laws and regulations applicable to our industry, our business, financial condition and results of operations may be materially and adversely affected.

Our business is subject to regulation by various governmental authorities in China, including the CAC, The Ministry of Commerce, the Ministry of Industry and Information Technology, the State Administration for Market Regulation, the Ministry of Culture and Tourism, the National Radio and Television Administration, as well as the corresponding local regulatory authorities. Such governmental authorities promulgate and enforce laws and regulations that cover a variety of business activities related to our operations. These regulations in general regulate the entry into, the permitted scope of, as well as approvals, licenses, and permits for, the relevant business activities.

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Due to the uncertainties of interpretation and implementation of existing and future laws and regulations, the regulatory licenses we held may not be sufficient to meet regulatory requirements, which may restrain our ability to conduct and expand our business and may subject us to fines or other regulatory actions by relevant regulators if our practice is deemed as violating relevant laws and regulations. As we further develop and expand our business, we may need to obtain additional qualifications, permits, filings, approvals or licenses. Moreover, we may be required to obtain additional licenses or approvals if the PRC government adopts more stringent policies or regulations for our industry.

For example, according to the PRC Administrative Provisions on Internet Audio-visual Program Services (《互聯網視聽節目服務管理規定》), a provider of online audio-visual service is required to obtain an Online Transmission of Audio-visual Programs License (the “Audio-visual License”). According to the Notice 3, the live broadcasting platform conducting online audio-visual program service should hold an Audio-visual License (or register in the National Internet Audio-visual Programs Registration and Management System). See “Regulations – Regulations Related to Online Transmission of Audio-Visual Programs.” Based on our consultation with the Radio and Television Administration of Guangdong Province and the Shanghai Municipal Bureau of Culture and Tourism, our primary business, namely operating audio streaming rooms and other voice chat rooms for users to interact and allowing users to use our platform to post and share text, audio or video with other users, currently does not fall into the categories of online audio-visual services that are otherwise required to obtain the Audio-visual License. Based on such consultations, our PRC Legal Advisor is of the view that our abovementioned primary business currently does not fall into the categories of online audio-visual services that are otherwise required to obtain the Audio-visual License. However, the relevant government authority may interpret the requirement of the relevant provisions of PRC law differently in the future or PRC government may promulgate new laws and regulations to further regulate online audio-visual service, which may require us to obtain an Audio-visual License. We may not be eligible to apply for the Audio-visual License as the current PRC laws and regulations require an applicant to be a wholly state-owned or state-controlled entity. As our business grows and the regulatory environment evolves, if the relevant government authority interprets the requirement of the relevant provisions of PRC law differently in the future or PRC government promulgates new laws and regulations to further regulate online audio-visual service, which deems our abovementioned business as online audio-visual service, our failure to obtain the Audio-visual License or the registration in the National Internet Audio-visual Programs Registration and Management System may subject our business to uncertainties and restrict our business development, and we may be required to rectify within a limited period of time and subject to fines, confiscation of equipment engaged in illegal activities, suspension of our services or other penalties, which may materially and adversely affect our business, financial conditions and results of operations. To mitigate such risk exposure under potential Audio-visual License requirements, we are currently in the process of applying to the Radio and Television Administration of Guangdong Province for the registration in the National Internet Audio-visual Programs Registration and Management System pursuant to the Notice 3 with respect to the operation of the *TT Chat* platform. Based on our further consultation with the Radio and Television Administration of Guangdong Province, if such registration in the National Internet Audio-visual Programs

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Registration and Management System can be completed, the provider of online audio-visual service would be deemed to have the qualification to provide Audio-visual services, and such provider would not be penalized for conducting online audio-visual service without an Audio-visual License.

In addition, the relevant government authority may interpret and implement the requirement of the relevant provisions of PRC law differently under the Telecommunication Industry Classification Catalog (2015 version) (《電信業務分類目錄(2015版)》) and the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》). We cannot assure the authorized scope of our value-added telecommunication service licenses concerning the internet information services, or ICP licenses, are sufficient for our current business. Based on our consultation with Guangdong Communications Administration, the authorized scope of our ICP licenses are currently not required to include instant information interaction services for implementing voice chat functions on *TT Chat* app and *Shengdong* app. However, based on our consultation with the Shanghai Communications Administration, due to the uncertainties of the interpretation and implementation of such regulatory requirements applicable to voice chat functions on *Uki* app, we may be required to update the authorized scope of our ICP license to include instant information interaction service. See “Regulations – Regulations Related to Telecommunications Services.” If we were found to be in violation of any PRC laws or regulations due to the insufficient scope of our ICP license with respect to *Uki* app, or other apps in the future, we may be required to rectify within a limited period of time and subject to fines, confiscation of illegal gains, or suspension of our services or other penalties, which may adversely affect our business, financial condition and results of operations.

Moreover, according to the Administrative Provisions on Online Publishing Services (《網絡出版服務管理規定》) and the Notice on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》), an online game is required to be pre-approved by the NPPA before being published and operated online. At present, there are some casual games structured and presented with HTML5, or H5, standard embedded within our voice chat rooms on *TT Chat* app and *Shengdong* app accessible to users. Those casual games are provided free of charge for the purpose of enriching social experience and attract traffic, and do not have any payment functions, such as purchasing game equipment, skins or other items. Based on our consultation with the NPPA, currently those casual games may not need to obtain the pre-approval of online game publishing by the NPPA. However, the relevant government authority may interpret and implement the requirement of the relevant provisions of PRC law differently or PRC government may promulgate new laws and regulations to further regulate online game publishing, which may require our casual games to obtain the pre-approval of online game publishing by the NPPA, we may be subject to fines, removal of relevant online publishing games, confiscation of illegal gains and main equipment and special tools engaged in illegal activities, suspension of our services or other penalties, which may adversely affect our business, financial condition and results of operations.

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As of the Latest Practicable Date, we have not been subject to any material penalties from the relevant government authorities for failure to obtain any licenses, permits or approval for our business operations. We cannot assure you, however, that the government authorities will not do so in the future. In addition, we may be required to obtain additional licenses or permits, and we cannot assure you that we will be able to timely obtain, maintain or renew all the required licenses or permits or make all the necessary filings in the future. In particular, as part of our continuous efforts to expand our business scope and explore innovative business models, we cannot guarantee that such strategies and measures will not be challenged under PRC laws and regulations and if so, relevant PRC government authorities may issue warnings, order us to rectify our violating operations and impose fines on us. In the case of serious violations as determined by relevant authorities at their discretion, they may require suspension of the violating operations, seize our equipment and special tools in connection with such operations, confiscate our illegal gains or revoke the license, which may materially and adversely affect our business. If we fail to obtain, hold or maintain any of the required licenses or permits or make the necessary filings on time or at all, we may be subject to various penalties. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

We face risks and uncertainties to comply with the laws, regulations and rules in various aspects in overseas jurisdictions. Failure to comply with such applicable laws, regulations and rules may subject our overseas operation to strict scrutiny by local authorities, which in turn may materially and adversely affect our overseas operations.

As we expand our operations overseas, we may have to adapt our business models or operations to the local markets due to various legal requirements and market conditions. Despite that we do not believe our international operations will be significant to our business in the near future, our international operations and expansion efforts may result in increased costs and are subject to various of risks, including content control from local authorities, uncertain enforcement of intellectual property rights and infringements, the complexity of compliance with foreign laws and regulations and cultural differences. Compliance with applicable foreign laws and regulations related to matters that are central to our business, including those related to virtual gift sales, content restrictions, data privacy and minors protection, increases the costs and risk exposure of doing business in foreign jurisdictions. In some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. As our overseas operations evolves, we cannot assure you that we are able to fully comply with the legal requirements of each foreign jurisdiction and successfully adapt our business models to local market conditions. Due to the complexity involved in our overseas business expansion, we cannot assure you that we are in compliance with all local laws or regulations, including license requirements, or that our existing licenses will be successfully renewed or expanded to cover all of our areas of operations.

In addition, cultural differences may also impose additional challenges to our efforts in content control. Therefore, such different and possibly more stringent regulatory and cultural environments may increase the risk exposure to our daily operations in foreign jurisdictions. Our failure to comply with other foreign laws, regulations and rules could materially and

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adversely affect our business, results of operations, global reputation and global growth efforts. In addition, each of foreign jurisdictions may have different regulatory framework, implementation and enforcement for mobile social networking platforms, which may substantially increase our compliance costs to obtain, maintain or renew requisite licenses and permits or fulfill any required administrative procedures.

We, our directors, management, shareholders and employees may, from time to time, be subject to legal proceedings during the course of our business operations, which could adversely affect our reputation and results of operations.

From time to time, we are subject to or involved in legal claims, disputes, and legal or regulatory proceedings in the course of our business operations, such as those relating to trademark or other IP infringement, minor protection, users’ private information, and non-compliant content on the platform. Such claims and proceedings may be brought by third parties, including users, employees, business partners, governmental or regulatory bodies, competitors or other third parties. There may also be negative publicity associated with litigation that could decrease user acceptance of our social networking service, regardless of whether the allegations are valid or whether we are ultimately found liable. In addition, our directors, management, shareholders and employees may from time to time be subject to litigation, regulatory investigations, proceedings and/or negative publicity or otherwise face potential liability and expense in relation to commercial, labor, securities or other matters, which could adversely affect our reputation and results of operations. As a result, our business, financial condition, results of operations may be materially and adversely affected.

There is no guarantee that we will be successful in defending ourselves in legal proceeding under various laws. We may incur significant expenses related to such proceedings, which may negatively affect our operating results if changes to our business operations are required. These claims could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims.

If we fail to effectively manage our growth and control our costs and expenses, our business and operating results could be harmed.

We have experienced rapid growth in our business and operations and expansion of our platform since our inception in 2014, which places significant demands on our management, operational and financial resources. Our average MAUs increased by 142.5% from 2.2 million in 2018 to 5.4 million in 2019, and further by 126.7% to 12.3 million in 2020 and by 62.0% from 10.0 million in the six months ended June 30, 2020 to 16.2 million in the same period of 2021. However, given our limited operating history and the rapidly evolving market in which we compete, we may encounter difficulties as we establish and expand our operations, research and development, product development, sales and marketing, and administrative capabilities. We face significant competition for talented employees from other companies, which include both publicly traded and privately held companies, and we may not be able to hire new talents quickly enough to meet our needs and support our operations. If we fail to effectively manage

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our hiring needs and successfully integrate our new hires, our efficiency and ability to meet our forecasts and our employee morale, productivity and retention could suffer, and our business and operating results could be adversely affected.

We expect our costs and expenses to continue to increase in the future as we broaden our user base and increase user engagement, and develop and implement new features and services that require more complexity. In addition, our cost and expenses, such as our research and development expenses, sales and marketing expenses and administrative expenses, have grown rapidly as we expanded our business. Historically, our costs increased each year, and we expect to continue to incur increasing costs to support our anticipated future growth. We expect to continue to invest in our technology infrastructure in order to enable us to provide our services rapidly and reliably to users. Continued growth could also strain our ability to maintain reliable service levels for our users, develop and improve our operational, financial, legal and management controls, and enhance our management systems and procedures. If we are unable to generate adequate revenues and to manage our expenses, we may not be able to maintain profitability or may incur significant losses in the future. Our expenses may grow faster than our revenues, and our expenses may be greater than we anticipate. Managing our growth will require significant expenditures and the allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition could be harmed.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive, and third-party infringements of our intellectual property rights may adversely affect our business.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. See also “Business – Intellectual Properties.” In China, we market our key services under the brand “*TT Chat*.” Our business and financial performance are highly dependent on the strength and the market perception of our brand and services. A well-recognized brand is critical to increasing our user base and, in turn, facilitating our efforts to monetize our services and enhancing our attractiveness to customers. If for any reason we are unable to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, results of operations and prospects may be materially and adversely affected. We currently have pending trademark applications in China. There can be no assurance that our application for the registration with competent government authorities of trademarks and other intellectual property rights related to our current or future business will be approved, or our intellectual property rights will not be challenged by third parties or found by the relevant governmental or judicial authority to be invalid or unenforceable. From time to time, we may encounter difficulties registering our trademarks or other intellectual properties or have disputes with third parties regarding our trademarks or other intellectual properties. If the relevant trademarks or other intellectual properties could not be registered, we may fail to prevent others from using such intellectual properties, and our business, financial condition and results of operations may be materially and adversely affected.

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Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain and use our intellectual property or seek court declarations that they do not infringe upon our intellectual property rights. Monitoring unauthorized use of our intellectual property is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual property. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, we must actively protect and maintain the legal ownership of our trademarks under which we market our brand and operate our platforms and business. Any failure to register or maintain the registration of our trademarks in any geographic region in which we operate our business may result in an adverse and material effect on our operation and financial conditions.

If we are unsuccessful in obtaining trademark protection for our trademarks, we may be required to change our brand names and may incur substantial costs in diverting the existing users and potential users to the entrance under a new name and may lose user traffic on our platform to a material extent during the process. Any potential conflict over the usage of “*TT Chat*” brand may expose us to substantial legal costs and take up the time and energy of our management which could have been used on development of our business.

Our business may be harmed if we were to lose our senior management and key employees’ services or if we were not able to hire, retain and motivate qualified personnel for important positions.

We depend on the continued contributions of our senior management, especially the executive officers listed in “Directors and Senior Management” section of this document, and other key employees, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could materially harm our business.

Our future success is dependent on our ability to attract a significant number of qualified employees and retain existing key employees, especially our product development and technology professionals. We believe that there is, and will continue to be, intense competition for highly skilled management, technical, sales and other personnel with experience in our industry in the cities where our offices are located. Our need to significantly increase the number of our qualified employees and retain key employees may cause us to materially increase compensation-related costs, including stock-based compensation. We must provide competitive compensation packages and a high-quality work environment to hire, retain and motivate employees. In addition, our senior management team has limited experience in running public companies, which will require us to expend additional resources in hiring additional support staff and incur additional costs and expenses. To the extent we hire personnel from competitors, we also may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. If we are unable to retain and motivate our existing employees and attract qualified personnel for important positions, we may be unable to manage our business effectively, including the development, marketing and sale, which could adversely affect our business, operating results and financial condition, and the price of our [REDACTED] could suffer.

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We have granted, and expect to continue to grant, share options under our share incentive plan, which may result in increased share-based compensation expenses.

We have adopted a share incentive plan for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. See “Statutory and General Information – D. Employee Incentive Plan” in Appendix V to this Document for details. For the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021, we recorded RMB2.8 million, RMB1.6 million, RMB1.5 million, RMB0.4 million and RMB65.6 million share-based compensation expenses in relation to share options granted, respectively.

We believe the granting of share options is of significant importance to our ability to attract and retain our employees, and we will continue to grant share options to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations. If additional share options or other equity incentives are granted to our employees, directors or consultants in the future, we will incur additional share-based compensation expense and our results of operations will be further adversely affected.

We rely on our mobile app to provide services to our users which, if inaccessible, may have material adverse impact on our business, financial condition and results of operations.

We rely on third-party mobile app distribution channels such as Apple’s App Store, various Android’s App Stores and other channels to distribute our mobile app to users. We expect a substantial number of downloads of our mobile app will continue to be derived from these distribution channels. As such, the promotion, distribution and operation of our apps are subject to such distribution platforms’ standard terms and policies for app developers, which are subject to the interpretation of, and frequent changes by, these distribution channels. A few of these third-party platforms dominate the mobile application distribution channels. Any changes in the revenue-sharing arrangements that we have with any of the major third-party application distribution platforms may materially impact our revenue and profitability. In addition, changes in the credit period or the settlement cycle terms of these third-party platforms may materially and adversely affect our cash flow. If such app stores or any other major distribution channels interpret or change their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected. If any of our entities or any of our mobile apps is disallowed for downloading or distribution by these third parties for whatever reason, we will need to find alternative approach to distribute the apps, and our reputation and business may be adversely affected.

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We have experienced in the past temporary removal of our *TT Chat* app by mobile app stores for reasons such as government scrutiny on our business or industry or enhanced compliance requirements by such third-party platforms, see “– We were ordered to rectify in the past for non-compliant content and other matters on *TT Chat* app by relevant PRC regulators, and any regulatory non-compliance or negative incident in this regard may materially and adversely affect our reputation, business, financial condition and results of operations.” We cannot assure you that our app will not be removed again by a third-party mobile app distribution channel in future and our business operation, reputation and financial conditions may be negatively affected. In addition, we may rely on such third-party platforms as our payment channels including through in-app purchases. Any suspension or removal of our apps from these platforms may result in material adverse impact on our results of operations due to the unavailability of such payment channels.

We have been and may be subject to intellectual property infringement claims or other allegations by third parties for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, which may materially and adversely affect our business, financial condition and prospects.

We have been and may in the future be subject to intellectual property infringement claims or other allegations by third parties for services we provide or for information or content displayed on, retrieved from or linked to our platform, or distributed to our users, which may materially and adversely affect our business, financial condition and prospects.

We allow users to upload text, graphics and other content to our platform and download, share, link to and otherwise access games and other content on our platform. We have adopted procedures designed to reduce the likelihood that content might be used without proper licenses or third-party consents, including reviewing game licenses, providing warnings and restrictions in user agreements and implementing complaint handling measures. However, these procedures may not be effective in preventing the unauthorized posting of copyrighted content. Therefore, we may face liability for copyright or trademark infringement, defamation, unfair competition, libel, negligence, and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through our platform.

Companies in the internet, technology and media industries are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties’ rights. The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, are uncertain and still evolving. We face, from time to time, and expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors, or allegations that we are involved in unfair competition against our competitors. As we face increasing competition and as litigation becomes a more common method for resolving commercial disputes in China, we face a higher risk of being the subject of intellectual property infringement claims.

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Defending intellectual property litigation is costly and can impose a significant burden on our management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. Such claims, even if they do not result in liability, may harm our reputation. Any resulting liability or expenses, or changes required to our platform to reduce the risk of future liability, may have a material adverse effect on our business, financial condition and prospects.

If the software used by our mobile app and internal systems contains undetected programming or system errors or vulnerabilities, our business could be adversely affected.

Our mobile app and internal systems rely on software, including software developed or maintained internally and/or by third parties. In addition, our mobile app and internal systems depend on the ability of such software to store, retrieve, process and manage immense amounts of data. The software on which we rely in the past has contained, and may now or in the future contain, undetected programming errors, bugs, or vulnerabilities. Some errors may only be discovered after the code has been released for external or internal use. Errors, vulnerabilities, or other design defects within the software on which we rely may result in a negative experience for users using our mobile app, delay introductions of new features or enhancements, result in errors or compromise our ability to protect the data of our users and/or our intellectual property or lead to reductions in our ability to provide some or all of our services. In addition, any errors, bugs, vulnerabilities, or defects discovered in the software on which we rely, and any associated degradations or interruptions of service, could result in harm to our reputation and loss of users, which could adversely affect our business, financial condition and operation results.

Computer and mobile malware, viruses, hacking and phishing attacks, spamming and improper or illegal use of our mobile app may affect user experience, which could reduce our ability to attract users and materially and adversely affect our business, financial condition and results of operations.

Computer and mobile malware, viruses, hacking and phishing attacks have become more prevalent in our industry, and may occur on our mobile app in the future. Although it is difficult to determine what, if any, direct harm may result from an interruption or attack, any failure to maintain performance, reliability, security and availability of our mobile app and technical infrastructure to the satisfaction of our users may seriously harm our reputation and our ability to retain existing users and attract new users.

In addition, spammers may use our mobile app to send targeted and untargeted spam messages to users, which may affect user experience. In spamming activities, spammers typically create multiple user accounts for the purpose of sending spam messages. Although we attempt to identify and delete accounts created for spamming purposes, we may not be able to effectively eliminate all spam messages from our mobile app in a timely fashion. Our actions

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to combat spam may also require diversion of significant time and focus of our technology team from improving our mobile app. As a result, our users may use our mobile app less or stop using them altogether, and result in continuing operational costs to us.

User growth and engagement depend upon effective interoperation with mobile operating systems, networks, mobile devices and standards that we do not control.

We make our services available across a variety of mobile operating systems and devices. We are dependent on the interoperability of our services with popular mobile devices and mobile operating systems that we do not control, such as Android and iOS. Any changes in such mobile operating systems or devices that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. Further, if the number of platforms for which we develop our services increases, which is typically seen in a dynamic and fragmented mobile services market such as China, it will result in an increase in our costs and expenses. In order to deliver high-quality services, it is important that our services work well across a range of mobile operating systems, networks, mobile devices and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices and standards. In the event that it is difficult for our users to access and use our services, particularly on their mobile devices, our user growth and user engagement could be harmed, and our business and operating results could be adversely affected.

We may be liable for improper use or appropriation of personal information.

Our business involves collecting and retaining user data, including personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our operations as well as regarding our employees. The integrity and protection of our users, employees and company data is critical to our business. Our users and employees expect that we will adequately protect their personal information. We are required by applicable laws to keep strictly confidential the personal information that we collect, and to take adequate security measures to safeguard such information.

The PRC Criminal Law (《中華人民共和國刑法》), as amended by its Amendment 7 (effective on February 28, 2009) and Amendment 9 (effective on November 1, 2015), prohibits institutions, companies and their employees from selling or otherwise illegally disclosing a citizen’s personal information obtained during the course of performing duties or providing services or obtaining such information through theft or other illegal ways. On November 7, 2016, the Standing Committee of the PRC National People’s Congress issued the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), or Cyber Security Law, which became effective on June 1, 2017. Pursuant to the Cyber Security Law, the owners and administrators of networks and network service providers have various personal information security protection obligations, including restrictions on the collection and use of personal information of users, and they are required to take steps to prevent personal data from being

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divulged, stolen, or tampered with. The Civil Code of the PRC (《中華人民共和國民法典》) (issued by the PRC National People’s Congress on May 28, 2020 and effective from January 1, 2021) provides main legal basis for privacy and personal information infringement claims under the Chinese civil laws. Furthermore, on August 20, 2021, the SCNPC promulgated the Law of Personal Information Protection of PRC, or the Personal Information Protection Law (《中華人民共和國個人信息保護法》), which will become effective on November 1, 2021, setting forth detailed rules for handling sensitive personal information. PRC regulators, including the Cyberspace Administration of China, MIIT, and the Ministry of Public Security have been increasingly focused on regulation in the areas of data security and data protection.

Regulatory requirements regarding the protection of personal information are constantly evolving and can be subject to differing interpretations or significant change, making the extent of our responsibilities in that regard uncertain. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. For instance, various regulatory bodies in China, including the Cyberspace Administration of China, the Ministry of Public Security and the SAMR, have enforced data privacy and protection laws and regulations with varying and evolving standards and interpretations. In April 2020, the Chinese government promulgated Cybersecurity Review Measures (《網絡安全審查辦法》), which came into effect on June 1, 2020. According to the Cybersecurity Review Measures, operators of critical information infrastructure must pass a cybersecurity review when purchasing network products and services which do or may affect national security. To our knowledge, as of the Latest Practicable Date, we have not been identified as a critical information infrastructure operator under current effective PRC laws and regulations. On July 10, 2021, the Cyberspace Administration of China and other related authorities released the draft amendment to the Cybersecurity Review Measures, or the Draft Measures (《網絡安全審查辦法(修訂草案徵求意見稿)》), for public comments through July 25, 2021. The Draft Measures proposes the following key changes: (i) companies who are engaged in data processing, which affects or may affect national security, are also subject to the regulatory scope; (ii) the CSRC is included as one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review working mechanism; (iii) the operators holding personal information of more than one million users, seeking a listing outside China shall file for cybersecurity review with the Cybersecurity Review Office; and (iv) the risks of core data, important data or large amounts of personal information being stolen, leaked, destroyed, damaged, illegally used or exported and the risks of critical information infrastructure, core data, important data or large amounts of personal information being influenced, controlled or exploited by a foreign government maliciously shall be collectively taken into consideration during the cybersecurity review process. The Draft Measures remain unclear on whether the relevant requirements will be applicable to companies that intend to be listed in Hong Kong. It also remains uncertain whether the future regulatory changes would impose additional restrictions on companies like us. The Draft Measures have not been formally adopted. We cannot predict the impact of the Draft Measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted version of the Draft Measures mandates clearance of cybersecurity review and other specific actions to be completed by companies like us, we face uncertainties as to whether such clearance can be timely obtained, or at all. In addition, we could become subject to enhanced

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cybersecurity review or investigations launched by PRC regulators in the future. Any failure or delay in the completion of the cybersecurity review procedures or any other non-compliance with the related laws and regulations may result in fines or other penalties, including suspension of business, website closure, removal of our app from the relevant app stores, and revocation of prerequisite licenses, as well as reputational damage or legal proceedings or actions against us, which may have material adverse effect on our business, financial condition or results of operations.

On June 10, 2021, the Standing Committee of the National People’s Congress of China, or the SCNPC, promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021. The PRC Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The PRC Data Security Law also provides for a national security review procedure for data activities that may affect national security and imposes export restrictions on certain data and information. On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies, and the laws and regulations regarding data security, cross-border data flow and management of confidential information are expected to undergo further changes, which may require greater information security responsibilities and stronger cross-border information management mechanism and process. As uncertainties remain regarding the interpretation and implementation of these laws and regulations, we may become subject to additional compliance costs and liabilities under such laws and regulations and we may be ordered to rectify or terminate any actions that are deemed illegal by regulatory authorities. We may also become subject to fines and/or other sanctions which may have material adverse effect on our business, operations and financial condition.

In the past, we have received notices from the relevant governmental authorities in China requiring us to enhance our data privacy protection measures on the mobile apps we operate in accordance with the applicable law and regulations of the PRC, without imposing any penalty on us. We carried out various mitigation measures in response to these notices. To avoid recurrence of such events, we upgraded our mobile apps to ensure they only collect necessary personal information upon obtaining users’ consent. We implement a data privacy policy with respect to how we collect, store, process and use user data and information, and we may only use such data and information to provide and improve our services, content and advertising in strict compliance with such policy. Despite the absence of any material data breach or similar incidents and our continuous efforts to comply with our privacy policy as well as all applicable data protection laws and regulations, any failure or perceived failure to comply with these laws, regulations or policy may result in inquiries and other proceedings or actions against us by governmental authorities or others, as well as negative publicity and damage to our reputation, each of which could cause us to lose users and business partners and have an adverse effect on our business and results of operations.

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Any system failure or compromise of our security that results in the unauthorized access to or release of the data, photo or chat history of our users could significantly limit the adoption of our services, as well as harm our brand reputation, result in litigation against us, liquidated and other damages, regulatory investigations and penalties, and we could be subject to material liability. We expect to continue expending significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the scope of services we offer and as we increase the size of our user base.

In addition, the interpretation and application of the aforementioned laws and regulations are often uncertain and in flux. Our practice may become inconsistent with these laws and regulations. If so, in addition to the possibility of fines, this could result in an order requiring that we change our practices, which could have an adverse effect on our business and results of operations.

Users’ payments to purchase and use of virtual items on our mobile apps could expose us to additional regulatory requirements and other risks that could be costly or difficult to comply with.

We may be subject to a variety of laws and regulations in the various jurisdictions where our users are located in respect of the users’ payments to purchase virtual items on our apps through third-party payment platforms, including those governing money transmission, gift cards and other prepaid access instruments, electronic funds transfers, anti-money laundering, counter-terrorist financing, gambling, banking and lending. In some jurisdictions, the application or interpretation of these laws and regulations may be unclear. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. In the event that we are found to be in violation of any such legal or regulatory requirements, we may be subject to monetary fines or other penalties, or we may be required to make product or marketing practice changes, any of which could have an adverse effect on our business and financial results. In addition, we may be subject to a variety of additional risks as a result of these payments by users, including potential fraudulent or otherwise illegal activity by users, employees, or third parties.

Our operations depend on the performance of the internet infrastructure in China.

Almost all access to the internet in China is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. Moreover, we primarily rely on a limited number of telecommunication service providers to support our business. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China’s internet infrastructure provided by telecommunication service providers. Web traffic in China has experienced significant growth during the past few years. Effective bandwidth and server storage at internet data centers in large cities are scarce. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our platform. We cannot assure you that the internet infrastructure in China will be able to support the demands associated with the continued

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growth in internet usage. If we cannot increase our capacity to deliver our online services, we may not be able to the increases in traffic we anticipate from our expanding user base, and the adoption of our services may be hindered, which could adversely impact our business.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decelerate. Such deceleration may adversely affect our ability to continue to expand our user base.

Any disruption to our information technology systems or those of third-party partners could materially damage our user relationships and subject us to significant reputational, financial, legal and operational consequences.

We depend on our information technology systems, as well as those of third parties, to develop new products and services, operate our platform, host and manage our services, store data, process transactions, and respond to user inquiries. Any material disruption or slowdown of our systems or those of third parties whom we depend upon, including a disruption or slowdown caused by our failure to successfully manage significant increases in user volume, could cause outages or delays in our services, which could harm our brand and adversely affect our operating results.

We rely on cloud servers maintained by reputable cloud service providers to store our data. Problems with our cloud service providers or the telecommunications network providers with whom they contract could adversely affect the experience of our users. Our cloud service providers could decide to cease providing us with services without adequate prior notice under certain circumstances. Any change in service levels at our cloud servers or any errors, defects, disruptions, or other performance problems with our platform could harm our brand and may damage the data of our users. If changes in technology cause our information systems, or those of third parties whom we depend upon, to become obsolete, or if our or their information systems are inadequate to handle our growth, we could lose users and our business and operating results could be adversely affected.

Our internal systems and mobile apps contain open source software, which may pose particular risk to our proprietary software and mobile apps features and functionalities in a manner that negatively affect our business.

We use open source software in our internal systems and mobile apps and will continue to use open source software in the future. To handle risks in this regard, we have set up an internal system that monitors any change in the source code of any open source software we use in our operation, made risk management plan for open source software, and increasingly invested in developing our proprietary software. Despite these risk management efforts, there is a risk that open source software licenses could be construed in a manner that imposes

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unanticipated conditions or restrictions on our ability to provide our services through the various features and functionalities of our mobile apps. Additionally, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional technology and development resources, and we may not be able to complete it successfully.

We use third-party services or partner with third parties in connection with our business, and any disruption to the provision of these services to us or any deterioration of our relationship with our business partners could result in adverse publicity and a slowdown in the growth of our user base, which could materially and adversely affect our business and results of operations.

Our business depends upon services provided by, and relationships with, third parties, including:

- A significant component of our business is matching users with other users who share the same interest, for example with game buddies for online games, which are developed and operated by third parties.
- We market our platform and acquire new users through various channels, such as short video platforms, multi-channel network content creators and app stores. If our relationship with these third parties deteriorates, or they for whatever reason cease to distribute our mobile apps or other services, our business may be materially and adversely affected.
- In addition, we sell a significant portion of our virtual items through third-party online payment systems. If any of these third-party online payment systems suffer from security breaches, users may lose confidence in such payment systems and refrain from purchasing our virtual items online, in which case our results of operations would be negatively impacted.

We exercise no control over the third parties with whom we have business arrangements and do not have control over the security measures of our third-party online payment vendors. If such third parties increase their prices, fail to provide their services effectively, terminate their service or agreements or discontinue their relationships with us, we could suffer service interruptions, reduced revenues or increased costs, any of which may have a material and adverse effect on our business, financial condition and results of operations. Any security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential user information and could, among other things, damage our reputation and the perceived security of all of the online payment systems that we use. If a well-publicized internet or mobile network security breach were to occur, users may become reluctant to pay for our services even if the publicized breach did not involve payment

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systems or methods used by us. In addition, there may be billing software errors that would damage user confidence in these online payment systems. If any of the above were to occur and damage our reputation or the perceived security of the online payment systems we use, we may lose paying users and users may be discouraged from purchasing our services, which may have a material adverse effect on our business.

Some of our users may make sales or purchases through unauthorized third-party platforms of virtual items we offer for free on our platform, which may affect our revenue-generating opportunities and exert downward pressure on the prices we charge for our virtual items.

We, from time to time, offer virtual items free of charge to attract users or encourage user participation in channels. Some of our users may sell or purchase such free virtual items through unauthorized third party sellers in exchange for real currency. For example, fans of a host may pay other users to send flowers or gifts the latter have accumulated on *TT Chat* app to the performer, in order to show support of the host of their choice. These unauthorized transactions are usually arranged on third party platforms which we do not and are unable to track or monitor. Accordingly, these unauthorized purchases and sales from third party sellers may affect our revenue-generating opportunities and may impede our revenue and profit growth by, among other things, reducing the revenues we could have generated and exerting downward pressure on the prices we charge for our virtual items.

We face risks associated with potential misconduct of our employees, business partners and their employees and other related personnel.

We rely on our employees to maintain and operate our business and have implemented an internal code of conduct to guide the actions of our employees. However, we do not have control over the actions of our employees, and any misbehavior of our employees could materially and adversely affect our reputation and business. For example, if our employees download pirated software to their work computers or perform other unauthorized actions on our IT system, we may be exposed to security breach. Despite the security measures we have implemented, our systems and procedures and those of our business partners may be vulnerable to security breaches, act of vandalism, software viruses, misplaced or lost data, programming or human errors or other similar events caused by our employees, our business partners and their employees and other related personnel, which may disrupt our delivery of services or expose the identities and confidential information of our users and others. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we may lose current and potential users, and we may be exposed to legal and financial risks, including those from legal claims, regulatory fines and penalties, which in turn could adversely affect our business, reputation and results of operations.

With respect to employees or ex-employees, we could also in the future face a wide variety of claims, including discrimination, sexual harassment, privacy, labor, employment or tort claims. Often these cases raise complex factual and legal issues, and the result of any such

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claims are inherently unpredictable claims against us, whether meritorious or not, could require significant amounts of management time and corporate resources to defend, could result in significant media coverage and negative publicity, and could be harmful to our reputation and our brand. If any of these claims were to be determined adversely to us, or if we were to enter settlement arrangements, we could be exposed to monetary damages or be forced to change the way in which we operate our business, which could have an adverse effect on our business, financial condition and results of operations.

We also work with our business partners in our business operation, and their performance affects the image of our brand. However, we do not directly supervise them in providing services to us or our users. Although we generally select business partners with strong reputation and track record, we may not be able to successfully monitor, maintain and improve the quality of their services. In the event of any unsatisfactory performance by our business partners and/or their employees, our business operation may be negatively impacted and our users may experience disruptions in services or decline in service quality, which may materially and adversely affect our reputation, our ability to retain and expand our user base, and our business, financial condition and results of operations.

Past and future strategic business partnerships or acquisitions may have a material and adverse effect on our business, reputation and results of operations.

We may in the future enter into transactions including joint ventures, strategic investments, and intellectual property licensing and operations with various third parties. Such strategic transactions with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor their actions and to the extent strategic third parties suffer negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

In addition, we may acquire additional assets, technologies or businesses that are complementary to our existing business. Future acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial or operating results we expect. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the incurrence of debt, the incurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible shareholders' approval, we may also have to obtain approvals and licenses from the government authorities in the PRC for the acquisitions and comply with applicable PRC laws and regulations, which could result in increased costs and delays.

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We have limited experience in international markets. If we fail to meet the challenges presented by our expansion overseas, our business, financial condition and results of operations may be materially and adversely affected.

We are exploring opportunities overseas. We have limited experience in international markets and we expect to enter and expand our operations in international markets. Global expansion could expose us to a number of risks, including:

- compliance with applicable foreign laws and regulations, including but not limited to internet content provider licenses, internet content requirements, foreign exchange controls, cash repatriation restrictions, intellectual property protection rules and data privacy requirements;
- challenges in identifying appropriate local business partners and establishing and maintaining good working relationships with them;
- challenges in formulating effective marketing strategies targeting users from various jurisdictions and cultures, who have a diverse range of preferences and demands;
- challenges in attracting users to generate appealing content on our overseas platforms;
- challenges associated with internet infrastructure and telecommunication network services overseas and risks of system security breaches;
- local competition;
- local employment laws and practices;
- fluctuations in currency exchange rates;
- exposure to different tax jurisdictions that may subject us to greater fluctuations in our effective tax rate and assessments in multiple jurisdictions on various tax-related assertions, including transfer pricing adjustments and permanent establishment; and
- increased costs associated with doing business in foreign jurisdictions.

Despite that we do not believe our international operations will be significant to our business in the near future, our business, financial condition and results of operations may be adversely affected by these and other risks associated with our global expansion.

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Our results of operations are subject to substantial seasonal fluctuations due to a number of factors that could adversely affect our business and the trading price of the [REDACTED].

We experience seasonality in our business, reflecting seasonal fluctuations in internet and online entertainment usage. As a result, comparing our operating results on a period-to-period basis may not be meaningful. For example, online user numbers tend to be lower during school terms, which negatively affects our user activities for those periods. In addition, we often experience a reduction in active users in the third quarter of each year because a significant portion of our users are students, and as the new school year begins, student access to computers and the internet are affected. Internet usage and the rate of internet growth may also be expected to decline during the school terms as some students lose regular internet access.

Due to the foregoing factors, our operating results in one or more future periods may fall below the expectations of securities analysts and [REDACTED]. In such event, the trading price of the [REDACTED] would likely be materially and adversely affected.

The COVID-19 pandemic brings uncertainties to our business, financial condition and prospects.

The COVID-19 pandemic has caused, and may continue to cause us and certain of our business partners to implement adjustment of work arrangements enabling employees to work from home and collaborate remotely. We have taken measures to reduce the negative impact of the COVID-19 pandemic, including upgrading our telecommuting system or monitoring our employees' health on a daily basis. However, we might still be subject to related impact, such as travel restrictions and delay or cancelation in our offline events, which may adversely affect our service quality. The fact that people spent more time at home during the COVID-19 pandemic in early 2020 had contributed to the growth of our MAUs and paying users in early 2020, although it is difficult to quantify the level of such contributions during such period. We cannot guarantee that such growth trend in our operational performance will continue as the COVID-19 pandemic has been largely contained in China. People may spend less time at home or using mobile apps and more time on outdoor activities going forward due to the availability of effective vaccines and loosening of restrictions on travel and public gatherings. The extent to which the COVID-19 pandemic affects our operations and financial performance will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain the coronavirus, such as the availability of effective vaccines or cure, among others. Our operations could be disrupted if any of our employees is suspected of having COVID-19, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general.

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The success of our business model is contingent upon our ability to provide a safe online environment for minors to experience and if we are not able to continue to provide a safe environment, our business will suffer dramatically.

According to the Minors Protection Law latest amended in October 2020 (effective in June 2021) (《中華人民共和國未成年人保護法》), it is illegal to produce, reproduce, publish, release and disseminate books, newspapers and periodicals, films, radio and television programs, stage art works, audio-visual products, electronic publications or network information that promote obscenity, eroticism, violence, cults, superstitions, gambling, suicide seduction, terrorism, separatism and extremism and other content that are harmful to the physical and mental health of minors; online service providers are also prohibited from providing minors with products and services that may be addictive. According to the Provisions on the Administration of Programs for Minors (《未成年人節目管理規定》) issued by the National Radio and Television Administration, which came in effect on April 30, 2019, online audio-visual program service providers and program producers shall produce and disseminate programs for minors based on the physical and mental development status of the minors at different ages, and there should be images or sounds that prompt such programs. According to Notice 3, online show live broadcasting platforms are not allowed to provide charging and virtual gifting services to minors and must establish special customer service teams for minors, and give priority to accepting and timely handling complaints and disputes involving minors. See “Regulations – Regulations Related to the Protection of Minors in Online Entertainment.”

Our platform hosts a number of experiences intended for audiences of varying ages, a material percentage of which are designed to be experienced by minors. As a user generated content platform, it is relatively easy for developers, creators, and users to generate content that can be viewed broadly. We have made significant efforts to provide a safe and enjoyable experience for users of all ages. We invest significant technical and human resources to prevent inappropriate content on the platform by reviewing content on our platform in order to identify and block illegal or inappropriate content. Notwithstanding our efforts, from time to time illegal or inappropriate content is successfully uploaded onto our platform and can be viewed by others prior to being identified and removed by us. This content could cause harm to our audience and to our reputation of providing a safe environment for minors to play online. If we are unable to prevent, or are perceived as not being able to sufficiently prevent, all or substantially all inappropriate content from appearing on our platform, parents and minors will lose their trust in the safety of our platform, which would harm our overall acceptance by these audiences and would likely result in significantly reduced revenue, profitability, and ultimately, our ability to continue to successfully operate our platform.

We have received complaints on issues of minors’ consumption activities on our platform and on certain contents on our platform that are allegedly not suitable for minors. We have also been subject to regulatory inquiries and penalties relating to similar issues from time to time. We cannot assure you that we will not be subject to such complaints, inquiries and penalties in the future. We have adopted various measures to enhance minors protection. For example, we have established a minor version of our mobile app, where underage users may view minor-friendly contents, their using hours are limited, certain functions are disabled, and so

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forth. These efforts may not be sufficient to prevent minors from using the non-minor version of our mobile app and accessing the content thereon. Our continued regulatory compliance efforts in this regard may not be successful and may be costly, as they may divert a significant amount of management time and financial resources. If non-compliance with PRC minor protection laws and regulations occurs again in the future or if the PRC government undertakes further actions against our mobile app, our users may lose trust in us and our reputation may be seriously harmed, our mobile app may again be suspended from all app stores for an indefinite time, and we may be subject to other penalties and heightened regulatory scrutiny in the PRC, thereby having a material and adverse effect on our business, financial condition and business prospects.

Our business may be negatively affected by the potential obligations to make additional social insurance and housing fund contributions or may be subject to relevant administrative penalties.

We are required by PRC labor laws and regulations to pay various statutory employee benefits, including pensions insurance, medical insurance, work-related injury insurance, unemployment insurance and housing fund, to designated government agencies for the benefit of our employees and associates. Companies registered and operating in China are required under the Social Insurance Law and the Regulations on the Administration of Housing Funds to apply for social insurance registration and housing fund deposit registration within 30 days of their establishment and to pay for their employees’ different social insurance including pension insurance, medical insurance, work-related injury insurance and unemployment insurance to the extent required by law. Should we be found not completely in compliance with the aforesaid requirements, we could be subject to orders by the competent labor authorities for rectification, and failure to comply with the orders may further subject us to administrative fines. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties.

During the Track Record Period and up to the Latest Practicable Date, certain of our PRC operating entities did not have any employees and have not opened housing provident fund accounts and social insurance accounts. Chengdu Spherical World had employees during the Track Record Period but had no employees as of the Latest Practicable Date, and did not open housing provident fund accounts. These PRC operating entities are required to open housing provident fund accounts and social insurance accounts according to the relevant PRC laws and regulations. In addition, we have not made full contributions to the social insurance plans and housing funds for our employees as required by PRC laws and regulations. Any failure to make such contribution or to duly open the social insurances or housing provident fund accounts by us may directly expose us to penalties imposed by the local authorities and/or legal claims raised by our employees. For example, in respect of the social insurance, according to the Social Insurance Law, an employer that has not made social insurance contributions at a rate and based on an amount prescribed by the law, or at all, may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late fee of up to 0.05% per day. If the employer still fails to rectify the failure to make

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social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times of the amount overdue. During the Track Record Period and up to the Latest Practicable Date, we have not received any notice from the relevant government authorities or any claim or request from these employees in this regard. However, we cannot assure you that the relevant government authorities will not require us to pay the outstanding amount and impose late fees or fines on us. If the relevant PRC authorities determine that we shall make supplemental social insurance and housing fund contributions or that we are subject to fines and legal sanctions in relation to our failure to make social insurance and housing fund contributions in full for our employees, our business, financial condition and results of operations may be adversely affected.

If we become a target for public scrutiny or subject of any negative publicity, including complaints to regulatory agencies, negative media coverage, and public dissemination of malicious reports or accusations about our business, our reputation and brand could be severely damaged, our ability to expand our user base may be impaired, and our business and results of operations may be materially and adversely affected.

Since we operate in a highly competitive industry, brand image directly affects our ability to maintain our market position. We must continually exercise strict quality control of our mobile app to ensure that our brand image is not tarnished by substandard services. We must also promote and distinguish our mobile app from mobile apps of our competitors. If for any reason we are unable to maintain and enhance our brand recognition, or if we incur excessive expenses in this effort, our business, results of operations and prospect may be materially and adversely affected.

Moreover, as our business expands and grows, we may be exposed to heightened public scrutiny in markets where we already operate as well as in new markets where we may operate. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

Furthermore, our brand name and our business may be harmed by aggressive marketing and communication strategies by competitors and third parties. We may be subject to government or regulatory investigation or third-party claims as a result and we may be required to spend significant time and incur substantial costs to react to and address these consequences. There is no assurance that we will be able to effectively refute each of the allegations within a reasonable period of time, or at all. Additionally, public allegations, directly or indirectly, against us or our business partners, may be posted on online by anyone on an anonymous basis. The availability of information on social media platforms is virtually immediate, as is its impact. Social media platforms may not necessarily filter or check the accuracy of information before publishing them and we are often afforded little or no time to respond. As a result, our reputation may be materially and adversely affected and our ability to attract and retain users and maintain our market share and our financial conditions may suffer.

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We may require additional capital to support our business, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business and may require additional funds. In particular, we may seek additional funds to enhance our platform and expand our operations, including our sales and marketing organizations and our presence outside of China, improve our infrastructure or acquire complementary businesses, technologies and other assets.

Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our shareholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to holders of our ordinary shares. Any debt financing that we and our subsidiaries and Consolidated Affiliated Entities may secure in the future could contain restrictive and financial compliance covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. There is no guarantee that we will always comply with such covenants. In the event there is any breach of such covenants in our debt financing agreements, we or our relevant subsidiary or Consolidated Affiliated Entities could be required to repay the outstanding amounts under such agreements and be subject to other claims or liabilities arising out of such breaches, which could result in material adverse impacts to our financial condition and results of operations. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth, scale our infrastructure, develop product enhancements and to respond to business challenges could be significantly impaired, and our business, operating results and financial condition may be adversely affected.

The determination of the fair value changes and impairment of certain of our assets and liabilities requires the use of estimates that are based on unobservable inputs, and therefore inherently involves a certain degree of uncertainty.

We use significant unobservable inputs, such as expected volatility, discount for lack of marketability, risk-free interest rate, expected rate of return and discount rate, in valuing certain of our assets and liabilities, including financial assets at fair value through profit or loss, short-term investments, convertible redeemable preferred shares and redeemable preferred shares. The fair value change of financial assets at fair value through profit or loss, short-term investments, convertible redeemable preferred shares and redeemable preferred shares may significantly affect our financial position and results of operations. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. For instance, we had fair value changes on convertible redeemable preferred shares of nil, nil, RMB53.1 million, nil and RMB394.8 million in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such assets and liabilities.

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These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operation and financial condition. In addition, the process for determining whether an impairment of financial asset is other-than-temporary usually requires complex and subjective judgments, which could subsequently prove to have been wrong. For more details, see “Business – Legal Compliance – Social Insurance and Housing Provident Funds Contributions.”

We recorded net liabilities and operating cash outflows as of and for the six months ended June 30, 2021.

Although we recorded net assets as of December 31, 2018, 2019 and 2020, we recorded net liabilities of RMB1,300.7 million as of June 30, 2021, primarily due to the significant amount of convertible redeemable preferred shares recorded as liabilities.

Our convertible redeemable preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares upon the [REDACTED], after which we do not expect to recognize any further loss or gain on fair value changes from convertible redeemable preferred shares and will return to a net assets position from a net liabilities position. However, there can be no assurance that we will not experience liquidity problems in the future. In the six months ended June 30, 2021, we had net operating cash outflows of RMB42.8 million. If we fail to generate sufficient cash flow from our operations, or if we fail to maintain sufficient cash and financing, our liquidity position may be adversely affected. If we do not have sufficient cash flows to fund our business, operations and capital expenditure, our business and financial position will be materially and adversely affected.

We face risks associated with our investments.

We currently invest a portion of our capital in investments. As of June 30, 2021, our investments mainly consisted of financial assets at fair value through profit or loss including unlisted equity securities, wealth management products, forward contracts and loan receivables with conversion options. These investments may earn yields substantially lower than anticipated, and the fair values of our investments may fluctuate significantly, which contribute to the uncertainties in valuation. Any failure to realize the benefits we expected from these investments may materially and adversely affect our business and financial results.

We had aggregated net fair value gains on financial assets at fair value through profit or loss, including investments in unlisted entities, loan receivables, wealth management products and forward contracts of RMB1.6 million, RMB0.2 million and RMB0.5 million for 2019 and for the six months ended June 30, 2020 and 2021, respectively. We had net fair value losses on financial assets at fair value through profit or loss of RMB1.2 million and RMB8.7 million for 2018 and 2020, respectively. Any change in securities prices and market conditions could

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lead to volatility in the fair values of our financial assets at fair value through profit or loss, which could further impact our financial condition and results of operations and may also impact our ability to dispose of these financial instruments at favorable prices.

We are subject to risks and uncertainties associated with our investments in associates.

We have invested in associated companies and may continue to do so in the future. The performance of such associates has affected, and will continue to affect, our results of operations and financial position. Our investments in associates, recorded as investments accounted for using the equity method, which amounted to RMB6.7 million, RMB5.1 million, RMB8.7 million and RMB53.7 million, respectively, as of December 31, 2018, 2019 and 2020 and June 30, 2021. Our investments in associates are subject to liquidity risk. Our investments in associates are not as liquid as other investment products as there is no cash flow until dividends are received even if the associates reported profits under the equity method of accounting. Furthermore, our ability to promptly sell one or more of our interests in our associates in response to changing economic, financial and investment conditions is limited. The market is affected by various factors, such as general economic conditions, availability of financing, interest rates and supply and demand, many of which are beyond our control. We cannot predict whether we will be able to sell any of our interests in the associates for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquidity nature of our investment in associates may significantly limit our ability to respond to adverse changes in the performance of our associates. The success of an associate depends on a number of factors, some of which are beyond our control. As a result, we may not be able to realize the anticipated economic and other benefits from such associates, such as receiving dividends from them.

We face risks related to natural disasters, health epidemics, and other outbreaks, which could significantly disrupt our operations.

Our business could be adversely affected by natural disasters, health epidemics and other calamities. Our operations will be adversely affected by such events. For example, we could experience server interruptions or failures if the foregoing events occur. Although we have servers that are hosted in an offsite location and implemented backup system to retain our core transaction data, our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks, or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services.

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Our business is sensitive to economic conditions. A severe or prolonged downturn in the global or Chinese economy could materially and adversely affect our business, financial condition and results of operations.

The global macroeconomic environment is facing challenges, including the impact of COVID-19, the exit of the United Kingdom from the European Union and the ongoing trade disputes between China and the U.S. The Chinese economy has slowed down since 2012 and such slowdown may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in volatility in oil and other markets, and over the conflicts involving Ukraine, Syria and North Korea. There have also been concerns on the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition. In addition, continued turbulence in the international markets may adversely affect our ability to access capital markets to meet liquidity needs.

The rising political tensions, particularly between the United States and China, may adversely impact our business, financial condition, and results of operations.

Recently there have been heightened tensions in international economic relations, such as the one between the United States and China. In addition, political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the PRC central government and the executive orders issued by former U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with certain Chinese companies and their applications. Rising political tensions could reduce levels of trades, investments, technological exchanges, and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Although we do not have any operations in the United States, any of these factors could have a material adverse effect on our business, prospects, financial condition, and results of operations, to the extent that they adversely affect the Chinese economy.

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We have limited business insurance coverage, so that any uninsured occurrence of business disruption may result in substantial costs to us and the diversion of our resources, which could have an adverse impact on our results of operations and financial condition.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We do not maintain business-related insurance, nor do we maintain key-man life insurance or any insurance covering liabilities resulting from misconducts or illegal activities committed by our employees, users or business partners. Any uninsured occurrence may disrupt our business operations, require us to incur substantial costs and divert our resources, which could have an adverse effect on our results of operations and financial condition.

Our rights to use our leased properties may be defective and could be challenged by property owners or other third parties, which may disrupt our operations and incur relocation costs.

As of the Latest Practicable Date, we leased 22 properties occupying over 11,000 square meters in China, which are mainly used as our headquarters and office space. With respect to eight of our leases properties which we consider to be material to our business, the relevant lessors had not provided us with valid property ownership certificates or relevant authorization documents evidencing their rights to lease the properties to us. All such leased properties are used as our offices. The absence of the property ownership certificates limited our ability to determine whether the lessors have the right to lease the properties to us, and if any of the lessors is not the legal owner and has not been duly authorized by the legal owner, the relevant lease agreement may be deemed invalid, and as a result, we may face challenges from the legal owners of the properties or other third parties, and may be forced to vacate the relevant properties and relocate our offices. We may incur additional expenses during the process, and our business, financial condition and results of operations may be negatively affected.

Pursuant to applicable the PRC laws and regulations, all lease agreements are required to be registered with the local land and real estate administration bureau. As of the Latest Practicable Date, 18 of our leased properties in China have not been registered with the relevant PRC government authorities. Although failure to do so does not in itself invalidate the leases, we may be subject to fines if we fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities. The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. In the event that any fine is imposed on us for our failure to register our lease agreements, we may not be able to recover such losses from the lessors. As of the Latest Practicable Date, we were not aware of any notice or allegation of penalty from PRC government authorities for our failure on the registration of lease agreements.

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We are subject to anti-corruption, anti-bribery and other laws and regulations, and third-party payment channels we cooperate with are subject to anti-money laundering laws.

We are subject to anti-corruption, anti-bribery and other relevant laws and regulations in China and certain overseas jurisdictions. Although we perform compliance processes and maintain internal control systems, we may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws and regulations if our processes or systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material and adverse effect on our reputation, business, financial condition, results of operations and prospects. If any of our subsidiaries, operating entities, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws and regulations, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition, results of operations and prospects.

In addition, we currently cooperate with third-party payment channels such as Weixin Pay, Alipay and Apple Pay to process payments for us. These third party payment channels are subject to anti-money laundering obligations under applicable anti-money laundering laws and regulations in China, which require them to comply with certain anti-money laundering requirements, including the establishment of a customer identification procedure, the monitoring and reporting of suspicious transactions, the preservation of customer information and transaction records, and the provision of assistance to the public security department and judicial authority in investigations and proceedings in relation to anti-money laundering matters. If a third-party payment channel fails to perform its anti-money laundering obligations, it may be subject to fines or other proceedings in accordance with the relevant regulations. If any of our third-party payment channel fails to comply with applicable anti-money laundering laws and regulations, our reputation could suffer and we could become subject to regulatory intervention, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Increasing focus with respect to environmental, social and governance matters may impose additional costs on us or expose us to additional risks. Failure to comply with the laws and regulations on environmental, social and governance matters may subject us to penalties and adversely affect our business, financial condition and results of operation.

The PRC government and public advocacy groups have been increasingly focused on environment, social and governance, or ESG, issues in recent years, making our business more sensitive to ESG issues and changes in governmental policies and laws and regulations associated with environment protection and other ESG-related matters. Investor advocacy groups, certain institutional investors, investment funds, and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. Regardless of the industry, increased

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focus from investors and the PRC government on ESG and similar matters may hinder access to capital, as investors may decide to reallocate capital or to not commit capital as a result of their assessment of a company’s ESG practices. Any ESG concern or issue could increase our regulatory compliance costs. If we do not adapt to or comply with the evolving expectations and standards on ESG matters from investors and the PRC government or are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition, and the price of the [REDACTED] could be materially and adversely effected.

We rely on assumptions and estimates to calculate certain key operating metrics, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

The numbers of monthly active users and monthly paying users of *TT Chat* app and certain other key operating metrics are calculated using internal company data that has not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in measuring usage and user engagement across our large user base. We treat each account as a separate user for the purposes of calculating our active users, because it may not always be possible to identify people that have set up more than one account. Accordingly, the calculations of our active users may not accurately reflect the actual number of people using *TT Chat* app.

Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in methodology. If customers or platform partners do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and customers and platform partners may be less willing to allocate their resources or spending to *TT Chat* app, which could negatively affect our business and operating results.

We face exposure to foreign currency exchange rate fluctuations, and such fluctuations could adversely affect our business, operating results and financial condition.

We have operations primarily in China but open to users worldwide. As we continue to expand our international operations, we will become increasingly exposed to the effects of fluctuations in currency exchange rates. Although the majority of our cash generated from revenue is denominated in Renminbi, a small amount is denominated in other currencies, and our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations.

The value of the Renminbi against other currencies has in the past fluctuated significantly, and may in the future continue to do so, affected by, among other things, changes in political and economic conditions and the foreign exchange policy adopted by the PRC government.

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With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against other currencies in the future.

We are a holding company and we rely on dividends paid by Zhuhai Huanquhui in China for our cash needs. Any significant fluctuation of Renminbi against the other currencies could adversely affect our business, operating results and financial condition, and the value of any dividends payable in other currencies. To the extent that we need to convert other currencies we receive from this [REDACTED] into Renminbi for our operations, appreciation of the Renminbi against such currencies would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into other currencies for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of such currencies against the Renminbi would have a negative effect on the amount.

Failure to withhold individual income tax as required by PRC regulations may subject us to penalties.

PRC laws and regulations require us to withhold individual income tax on employees' salaries based on the actual salary of each employee upon payment. Our failure in withholding individual tax and in complying with applicable PRC tax laws may subject us to late payment penalties up to ranging from 50% to five times of the amount overdue. With respect to the under-withheld individual income tax, we may be required to make up sufficient withholding and pay late fees and fines. If we are subject to late fees and fines in relation to the failure in withholding individual income tax, our financial condition and results of operations may be affected.

RISKS RELATED TO OUR CORPORATE STRUCTURE

If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership of certain businesses is prohibited or subject to restrictions under current PRC laws and regulations. Specifically, foreign investors are prohibited from holding equity interest in an entity conducting radio and television program production and operation business, internet audio-visual programs services and internet culture activities (except for music), and are restricted to hold equity interest in an entity conducting value-added telecommunications services (except for e-commerce, domestic multiparty communication, storage-and-forward and call center services) according to the Special Administrative

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Measures (Negative List) for the Access of Foreign Investment (2020) effective on July 23, 2020, which may be amended, supplemented or otherwise modified from time to time, or the Negative List. See “Regulations – Regulations Related to Foreign Investment.”

Because we are an exempted company incorporated in the Cayman Islands, we are classified as a foreign enterprise under PRC laws and regulations, and our wholly foreign-owned enterprise in the PRC is a foreign-invested enterprise, or FIE. To comply with above mentioned restrictions, we conduct our business in China through the Consolidated Affiliated Entities. Zhuhai Huanqihui has entered into a series of contractual arrangements with Guangzhou Quwan, Registered Shareholders and general partners of limited partnership Registered Shareholders, which enable us to (1) exercise effective control over Guangzhou Quwan, (2) receive all of the economic benefits of Guangzhou Quwan and (3) have an exclusive option to purchase all or part of the equity interests and assets in Guangzhou Quwan when and to the extent permitted by PRC law. As a result of these contractual arrangements, we have control over the Consolidated Affiliated Entities and hence consolidate its financial results of the Consolidated Affiliated Entities. For details, see the section headed “Contractual Arrangements” in this document.

Our PRC Legal Advisor is of the view that save as disclosed in the paragraph headed “Contractual Arrangements – Legality of the Contractual Arrangements” in this document, the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, except in relation to the dispute resolution clause. However, our PRC Legal Advisor advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion. If the PRC government otherwise find that we are in violation of any existing or future PRC laws or regulations or lack the necessary permits or licenses to operate our business, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- restricting our right to collect revenue;
- shutting down our services;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;

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- requiring us to change our corporate structure and contractual arrangements;
- restricting or prohibiting our use of the [REDACTED] from overseas [REDACTED] to finance our Consolidated Affiliated Entities’ business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and contractual arrangements. For details, see the paragraph headed “– Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, and its enactment could adversely affect our business, operating results and financial condition” in this section. Occurrence of any of these events could adversely affect our business, operating results and financial condition. In addition, if the imposition of any of these penalties or requirement to restructure our corporate structure causes us to lose the rights to direct the activities of the Consolidated Affiliated Entities or our right to receive its economic benefits, we would no longer be able to consolidate the financial results of the Consolidated Affiliated Entities in our consolidated financial statements, thus adversely affects our results of operation.

We rely on Contractual Arrangements with Guangzhou Quwan and the Registered Shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and could adversely affect our business, operating results and financial condition.

We rely on Contractual Arrangements with Guangzhou Quwan and the Registered Shareholders to operate our business in the PRC. These Contractual Arrangements may not be as effective as direct ownership in providing us with control over the Consolidated Affiliated Entities. If the Consolidated Affiliated Entities or the Registered Shareholders fail to perform their respective obligations under these contractual arrangements, our recourse to the assets held by the Consolidated Affiliated Entities is indirect and we may have to incur substantial costs and expend significant resources to enforce such arrangements in reliance on legal remedies under PRC law including seeking specific performance or injunctive relief, and contractual arrangements. These remedies may not always be effective, particularly in light of uncertainties in the PRC legal system. For example, in the event that shareholders in Guangzhou Quwan were to refuse to transfer their equity interests in Guangzhou Quwan to us or our designated persons if we exercise the purchase option pursuant to these Contractual Arrangements, or if they were otherwise to act in bad faith toward us, then we may refer to immediate legal actions to compel them to perform their contractual obligations.

All the agreements under our Contractual Arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit our ability to enforce these Contractual Arrangements. Meanwhile, there are very few precedents and little formal guidance as to how Contractual Arrangements in the context of a

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consolidated affiliated entity should be interpreted or enforced under PRC law. Significant uncertainties exist regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC law, rulings by arbitrators are final and parties cannot appeal arbitration results in court unless such rulings are revoked or determined unenforceable by a competent court. If the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over the Consolidated Affiliated Entities and relevant rights and licenses held by it which we require in order to operate our business, and our ability to conduct our business may be adversely affected. For details, please refer to the paragraph headed “– Risks Related to Doing Business in the PRC – We may be adversely affected by the complexity, uncertainties and changes in PRC laws, rules and regulation, particularly of internet businesses” in this section.

The Registered Shareholders of Guangzhou Quwan may have potential conflicts of interest with us, which could adversely affect our business, operating results and financial condition.

The interests of the shareholders of Guangzhou Quwan in their capacities as such shareholders may differ from the interests of our company as a whole, as what is in the best interests of our Consolidated Affiliated Entities, including matters such as whether to distribute dividends or to make other distributions to fund our offshore requirement, may not be in the best interests of our company. There can be no assurance that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or those conflicts of interest will be resolved in our favor. In addition, these shareholders may breach or cause Guangzhou Quwan to breach or refuse to renew the existing Contractual Arrangements with us.

We rely on the shareholders of Guangzhou Quwan to comply with PRC laws and regulations, which protect contracts and provide that directors and executive officers owe a duty of loyalty to the company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains, and the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of Guangzhou Quwan, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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Contractual Arrangements in relation to the Consolidated Affiliated Entities may be subject to scrutiny by the PRC tax authorities and they may determine that the Consolidated Affiliated Entities owe additional taxes, which could adversely affect our business, operating results and financial condition.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The PRC enterprise income tax law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm’s length principles. We may face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements among Zhuhai Huanqihui, Guangzhou Quwan and Registered Shareholders were not entered into on an arm’s length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, regulations and rules, and adjust their income in the form of a transfer pricing adjustment, which could increase their PRC tax liabilities and our overall tax liabilities. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by Zhuhai Huanqihui or Guangzhou Quwan for PRC tax purposes, which could in turn increase their tax liabilities without reducing their tax expenses. In addition, if Zhuhai Huanqihui requests the shareholders of Guangzhou Quwan to transfer their equity interests in Guangzhou Quwan at nominal or no value pursuant to these Contractual Arrangements, such transfer could be viewed as a gift and subject the relevant subsidiary to PRC income tax. Furthermore, the PRC tax authorities may impose late payment fees and other penalties on Zhuhai Huanqihui and Guangzhou Quwan for adjusted but unpaid taxes according to applicable regulations. Our financial position could be materially and adversely affected if the tax liabilities of our Zhuhai Huanqihui and Guangzhou Quwan increase, or if they are required to pay late payment fees and other penalties.

We may lose the ability to use and enjoy assets held by the Consolidated Affiliated Entities that are material to the operation of our business if these entities go bankrupt or become subject to a dissolution or liquidation proceeding.

The Consolidated Affiliated Entities hold most of our assets in China. Under the Contractual Arrangements, Guangzhou Quwan may not and its shareholders may not cause it to, in any manner, sell, transfer, mortgage or dispose of its assets or its legal or beneficial interests in the business without our prior consent. However, in the event that the shareholders of Guangzhou Quwan breach these Contractual Arrangements and voluntarily liquidate Guangzhou Quwan, or Guangzhou Quwan declares bankruptcy and all or part of their assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to continue some or all of our business activities or otherwise benefit from the assets held by the Consolidated Affiliated Entities, which could adversely affect our business, operating results and financial condition. If any of the Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, operating results and financial condition.

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If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations may be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including agreements and contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the State Administration of Market Supervision. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

We have three major types of chops – corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, for some important contracts (such as bank loan agreements) and for legal letters. We use contract chops for executing some leases and commercial contracts. We use finance chops generally for making and collecting payments, including issuing invoices. Use of corporate chops and contract chops must be approved by our legal department and administrative department, and use of finance chops must be approved by our finance department. The chops of our subsidiary and the Consolidated Affiliated Entities are generally held by the relevant entities so that documents can be executed locally. Although we usually utilize chops to execute contracts, the registered legal representatives of our subsidiary and the Consolidated Affiliated Entities have the apparent authority to enter into contracts on behalf of such entities without chops, unless such contracts set forth otherwise.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the designated key employees of our legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we have approval procedures in place and monitor our key employees, including the designated legal representatives of our subsidiaries and the Consolidated Affiliated Entities, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our key employees or designated legal representatives could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or the Consolidated Affiliated Entities. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations, and our business and operations may be materially and adversely affected.

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Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law, and its enactment could adversely affect our business, operating results and financial condition.

The Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) was approved by the National People’s Congress on March 15, 2019 and became into effect on January 1, 2020. The PRC Foreign Investment Law replaces the three laws on foreign investment, namely, the Wholly Foreign-owned Enterprise Law (《外資企業法》), the Sino-foreign Cooperative Joint Venture Law of the PRC (《中外合作經營企業法》) and the Sino-foreign Equity Joint Venture Law of the PRC (《中外合資經營企業法》). The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize 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. However, there are still uncertainties as to the interpretation and implementation of such legislation. The Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested relating to the regulating of contractual arrangements. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. On December 26, 2019, the State Council issued the Implementing Regulation of the Foreign Investment Law (《外商投資法實施條例》), or the Implementation Regulations, which became effective on January 1, 2020. Pursuant to the Implementation Regulations, in the event of any discrepancy between the Foreign Investment law and the Implementation Regulations and relevant requirements for foreign investment promulgated prior to January 1, 2020, the Foreign Investment Law and the Implementation Regulations shall prevail. The Implementation Regulations on the Foreign Investment Law does not stipulate whether contractual arrangements should be deemed as a form of foreign investment. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our Contractual Arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. If the ownership structure, Contractual Arrangements and business of our Company, Zhuhai Huanqunhui or Guangzhou Quwan are found to be in violation of any existing or future PRC laws or regulations, or if we fail to obtain or maintain any of the required permits or approvals, Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations, for instance, we may not be able to (1) continue our business in China through our Contractual Arrangements with Guangzhou

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Quwan, (2) exert effective control over the Consolidated Affiliated Entities or (3) consolidate the financial results of, and receive economic benefits from the Consolidated Affiliated Entities under existing Contractual Arrangements.

In addition, our corporate governance practice may be impacted and our compliance costs could increase if Zhuhai Huanqihui was considered as a FIE under the Foreign Investment Law. For instance, the Foreign Investment Law purports to impose ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Any company found to be non-compliant with these information reporting obligations could potentially be subject to fines or administrative liabilities.

RISKS RELATED TO DOING BUSINESS IN THE PRC

Changes in the political and economic policies of the PRC government could adversely affect our business, operating results and financial condition, and may result in our inability to sustain our growth and expansion strategies.

A substantial part of our operations are conducted in the PRC and a significant portion of our revenue is sourced from the PRC. Accordingly, our business, operating results and financial condition are affected to a significant extent by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China’s economic growth by allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, regulating financial services and institutions and providing preferential treatment to particular industries or companies.

While the PRC economy has experienced significant growth over the past decades, that growth has been uneven across different regions and between economic sectors and may not continue, as evidenced by the slowing of the growth of the Chinese economy since 2012. Any adverse changes in economic conditions in China, in the policies of the Chinese government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Any prolonged economic downturn could adversely affect our business and operating results, leading to reduction in demand for our services and solutions and adversely affect our competitive position.

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We may be adversely affected by the complexity, uncertainties and changes in PRC laws, rules and regulations, particularly of internet businesses.

A significant portion of our operations are conducted in the PRC and are governed by PRC laws, rules and regulations. Zhuhai Huanquhui and Guangzhou Quwan are subject to laws, rules and regulations applicable to foreign investment in China. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value.

The Chinese government heavily regulates the internet industry, including relevant market access restrictions and limitations on foreign investment, license and permit requirements for service providers in the internet industry. Since some of the laws, regulations and legal requirements with respect to the internet are relatively new and evolving, their interpretation and enforcement involve significant uncertainties. Because the Chinese legal system is based on written statutes, such that prior court decisions can only be cited for reference and have little precedential value, it is in many cases difficult to determine what actions or omissions may result in liabilities. Issues, risks and uncertainties relating to China’s government regulation of the Chinese internet sector include the following:

- We operate our business in China through businesses controlled via Contractual Arrangements versus direct ownership due to restrictions on foreign investment in businesses related to value-added telecommunication services.
- Uncertainties relating to the regulation of the internet business in China, including evolving licensing practices, give rise to the risk that some of our permits, licenses or operations may be subject to challenge, which may be disruptive to our business, subject us to sanctions or require us to increase capital, compromise the enforceability of relevant contractual arrangements, or have other adverse effects on us. The numerous restrictions on acceptable content in China subject us to potential civil and criminal liability, temporary blockage or complete shut-down of our products.

Due to the increasing popularity and use of the internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the internet or other online services covering issues such as user privacy, cybersecurity, data protection, minor protection, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. The adoption of additional laws or regulations may impede the growth of the internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business. The interpretation and application of existing PRC laws, regulations and policies, the stated positions of relevant PRC government authorities and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business.

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Pursuant to the Notice of on Further Strengthening Regulation to Effectively Prevent Online Gaming Additions among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), the PRC government limit online gaming time for minors to an hour per day from 8 p.m. to 9 p.m. on Friday, Saturday, Sunday and legal holidays in the PRC starting from September 1, 2021 and all online games are required to be connected to the online game anti-fatigue compliance system and a real-name registration system of the PRC government. Although our current operations have not yet been materially affected by such new regulation, the PRC government may continue to introduce additional restrictions on the online gaming industry in ways that adversely affect our users’ engagement with our platform.

Regulation of information disseminated over the internet in China may adversely affect our business and subject us to liability for information displayed on, retrieved from or linked to our platform or distributed to our users.

The PRC government has adopted certain regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements could result in the revocation of ICP license and other required licenses and the closure of the concerned websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website. In addition, the MIIT has published regulations that subject website operators to potential liability for content included on their websites and for the actions of users and others using their websites, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider, or ISP, to block any internet website maintained outside China in accordance with the relevant PRC laws and regulations. The State Secrecy Bureau, which is directly responsible for the protection of state secrets of the PRC government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information.

As these regulations are subject to interpretation by the relevant authorities and may change over time, it may not be possible for us to determine in all cases the type of content that could result in liability for us as an online platform operator. In addition, we may not be able to control or restrict the content of other internet content providers linked to or accessible through our platform, or content generated or placed on our platform by our users, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of the content on our platform objectionable, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our platform, which may reduce our user traffic and have a material and adverse effect on our financial condition and results of operations.

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There are uncertainties associated with PRC laws and regulations on virtual assets, and therefore it is not clear what liabilities, if any, we may have relating to the loss of virtual assets by our users.

While participating on our platform, our users may acquire, purchase and accumulate certain virtual assets, such as gifts or certain statuses and privileges. Such virtual assets can be important to users and, in some cases, can be cashed to actual money. However, virtual assets may become lost for various reasons, often through unauthorized use of the account of one user by other users and occasionally through data loss caused by delays in network service, network crashes or hacking activities. Currently, there are uncertainties associated with PRC laws and regulations on virtual assets. As a result, uncertainties still exist as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of a platform such as ours would have any liability, whether in contract, tort or otherwise, to users or other interested parties, for loss of such virtual assets. Some recent PRC court judgments ordered certain online platform operators liable for losses of virtual assets by platform users, and have ordered online platform operators to restore the lost virtual items to users or pay damages and losses. In case of a loss of virtual assets, we may be sued by our users and held liable for losses, which may negatively affect our reputation, business, financial condition, results of operations and prospects. We have been involved in virtual items related lawsuits primarily asking for the refund of virtual assets to minors in the past, and we cannot assure you that such lawsuits will not be brought against us again in the future.

Increases in labor costs and enforcement of stricter labor laws and regulations in China may adversely affect our business and our profitability.

China’s overall economy and the average wage in China have increased in recent years and are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to those who pay for our services, our profitability and results of operations may be materially and adversely affected.

In addition, we have been subject to regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and housing fund to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law (《中華人民共和國勞動合同法》) and its implementation rules, employers are subject to strict requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employee’s probation and unilaterally terminating labor contracts. In addition, enterprises are forbidden to force laborers to work beyond the time limit and employers must pay laborers for overtime work in accordance with the laws and regulations. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the PRC Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

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We engage independent third-party service providers to provide labor outsourcing services based on our business request (including audio talent service, content monitoring service, customer service, among others) and settle payment of service fees to such third-party service providers. The outsourced personnel involved are not our employees, they are all employees or contract personnel of such third-party service providers, the third-party service providers are obligated to sign labor or service contracts with them, pay them remuneration and make social insurance and housing provident funds contributions for them. Their service fees cover the management fees, the taxes, the human resource costs of those labor outsourcing personnel (including their remuneration, social insurance fees and housing provident funds) and other expenses. If the third-party service providers fail to perform such obligations, they need to undertake the liability of breach of contract according to the service agreements we entered into with them. However, we cannot preclude the possibility that these outsourced personnel supplied by third-party service providers may be re-classified as our employees by courts, arbitration tribunals or government agencies. If these outsourced personnel are re-classified as our employees, we will be required to pay them remuneration, make social insurance and housing provident funds contributions for them or provide other benefits, and our labor costs will be increased, which could adversely affect our business and results of operations. In addition, the management of these outsourced staff may be subject to stricter regulatory requirements, and failure to comply with the PRC Labor Contract Law and its implementation rules, as well as other laws and regulations regarding employee benefits, we could be subject to orders by the competent labor authorities for rectification, and failure to comply with the orders may further subject us to administrative fine. See “– Our business may be negatively affected by the potential obligations to make additional social insurance and housing fund contributions or may be subject to relevant administrative penalties.”

As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practices do not and will not violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. We cannot assure you that we have complied or will be able to comply with all labor-related law and regulations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations will be adversely affected.

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The approval of the China Securities Regulatory Commission, or the CSRC, may be required in connection with this [REDACTED] under a PRC regulation.

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State-Owned Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, the CSRC, and the State Administration of Foreign Exchange, or SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rules, which came into effect on September 8, 2006 and were amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle that is controlled by PRC domestic companies or individuals and that has been formed for the purpose of an overseas listing of securities through acquisitions of PRC domestic companies or assets to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

While the application of the M&A Rules remains unclear, we believe, based on the advice of our PRC Legal Advisor, that the CSRC approval is not required in the context of this [REDACTED] given that: (i) the CSRC has not issued any definitive rule or interpretation concerning whether [REDACTED] like ours are subject to this regulation, (ii) Zhuhai Huanquhui was incorporated as a wholly foreign-owned enterprise by means of direct investment rather than by merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules, and (iii) no explicit provision in the M&A Rules clearly provides that such Rules are applicable to contractual arrangements. We cannot assure you that relevant PRC government agencies, including the CSRC, would reach the same conclusion as our PRC Legal Advisor does. Furthermore, on July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law, pursuant to which PRC regulators are required to accelerate rule-making related to overseas issuance and listing of securities and cross-border data flow and legal enforcement. As there are still uncertainties regarding the interpretation and implementation of such regulatory guidance, we cannot assure you that we will be able to comply with new regulatory requirements relating to our future overseas capital raising activities and we may become subject to more stringent requirements with respect to matters including data privacy, cross-border investigation and enforcement of legal claims. For example, new rules could require Chinese companies using an offshore ownership structure, such as us, to seek approval before going public outside of China. If the CSRC or other PRC regulatory body subsequently determines that we need to obtain the CSRC’s approval for this [REDACTED] or if the CSRC or any other PRC government authorities promulgates any interpretation or implements rules that would require us to obtain CSRC or other governmental approvals for this [REDACTED], we may face adverse actions or sanctions by the CSRC or other PRC regulatory agencies. In any such event,

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these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the [REDACTED] from this [REDACTED] into the PRC or take other actions that could adversely affect our business, operating results and financial condition, as well as our ability to complete this [REDACTED]. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to halt this [REDACTED] before settlement and delivery of the [REDACTED] by this document. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that such settlement and delivery may not occur. In addition, if the CSRC or other regulatory agencies later promulgate new rules or explanations requiring us to obtain their approvals for this [REDACTED], we may be unable to obtain waivers of such approval requirements. Any uncertainties or negative publicity regarding such approval requirements could materially and adversely affect the trading price of the [REDACTED]. See the section of this document captioned “Regulations – Regulations Related to M&A and Overseas Listings.”

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

PRC laws and regulations, such as the M&A Rules, and other relevant rules, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the Ministry of Commerce be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to a merger control security review. Moreover, the Anti-monopoly Law requires that the anti-monopoly law enforcement agency shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In early February 2021, the Antimonopoly Commission of the State Council published the Anti-monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》), or the Platform Economy Antimonopoly Guidelines, that aims at specifying some of the circumstances under which an activity of internet platforms may be identified as monopolistic act as well as setting out merger controlling filing procedures involving variable interest entities. In addition, the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》) issued by the Ministry of Commerce that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the Ministry of Commerce, and the rules prohibit any activities attempting to bypass a security review, including by structuring a transaction through a proxy or contractual control arrangement. In December 19, 2020, the NDRC and the Ministry of Commerce promulgated the Rules on Security Review of Foreign

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Investment, or Security Review Rules (《外商投資安全審查辦法》), effective from January 18, 2021, further provide that, when deciding whether a (1) newly establishment of a foreign-invested enterprise; (2) specific merger or acquisition of a domestic enterprise by foreign investors or (3) a foreign investment in other form is subject to a security review by the Security Review Authority, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements of offshore transaction. Factors that the Security Review Authority considers in its review include whether an important industry is involved and whether such foreign investment involves national security. If a business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the relevant regulations to complete any such transaction could be time-consuming, and any required approval process, including approval from the Ministry of Commerce and/or the Security Review Authority, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners, Zhuhai Huanquhui or Guangzhou Quwan to liability or penalties, limit our ability to inject capital into Zhuhai Huanquhui and Guangzhou Quwan or limit Zhuhai Huanquhui’s and Guangzhou Quwan’s ability to increase their registered capital or distribute profits.

The SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” Pursuant to SAFE Circular 37, “control” refers to the act through which a PRC resident obtains the right to carry out business operation of, to gain proceeds from or to make decisions on a special purpose vehicle by means of, among others, shareholding entrustment arrangement. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as change of shareholders of the special purpose vehicle, increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above

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could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) released on February 13, 2015 by SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

Mr. Song, Mr. Chen Guangyao and Mr. Qiu Zhizhao, who are PRC residents and indirectly hold Shares in our Company, have completed their SAFE registration in accordance with SAFE Circular 37. We may not be able to know at all times, however, the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and there can be no assurance that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules, and there is no assurance that the registration under SAFE Circular 37 and any amendment will be completed in a timely manner, or at all. Any failure of our beneficial owners who are PRC residents to register or amend their foreign exchange registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners, Zhuhai Huanquhui or Guangzhou Quwan to fines and legal sanctions. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to Zhuhai Huanquhui and Guangzhou Quwan and limit Zhuhai Huanquhui’s ability to distribute dividends to our company. These risks could adversely affect our business, operating results and financial condition.

Any failure to comply with PRC regulations regarding employee equity incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in equity incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas [REDACTED] company. As an overseas [REDACTED] company, we and our directors, executive officers and other employees who are PRC residents and who have been granted options are subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any equity incentive plans of an overseas publicly listed company who are PRC residents are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and

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complete certain other procedures. We are making, and will make efforts to comply with these requirements, but there can be no assurance that they can successfully register with SAFE in full compliance with the rules. Failure to complete the SAFE registrations may subject relevant participants in our share incentive plans to fines and legal sanctions and may also limit the ability to make payment under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprise in China and limit our wholly-foreign owned enterprise’s ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under PRC law.

We may rely on dividends, loans and other distributions on equity paid by our principal operating subsidiaries to fund offshore cash and financing requirements. Any limitation on the ability of our PRC operating subsidiary to make payments to us could adversely affect our ability to conduct our business.

We are a holding company and may rely on dividends, loans and other distributions on equity paid by our principal operating subsidiaries and on remittances from Guangzhou Quwan for our offshore cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, fund inter-company loans, service any debt we may incur outside of China and pay our expenses. When Zhuhai Huanquhui or Guangzhou Quwan incurs additional debt, the instruments governing the debt may restrict their ability to pay dividends, make loans or make other distributions or remittances to us. Furthermore, the laws, rules and regulations applicable to Zhuhai Huanquhui and Guangzhou Quwan permit payments of dividends only out of its retained earnings, if any, determined in accordance with applicable accounting standards and regulations.

Under PRC laws, rules and regulations, Zhuhai Huanquhui and Guangzhou Quwan are required to set aside at least 10% of their net income each year to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of their registered capital. These reserves, together with the registered capital, are not distributable as cash dividends. As a result of these laws, rules and regulations, Zhuhai Huanquhui and Guangzhou Quwan are restricted in their ability to transfer a portion of their respective net assets to their shareholders as dividends, loans or advances. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary.

Limitations on the ability of Guangzhou Quwan to make remittance to the wholly-foreign owned enterprise and on the ability of our subsidiary to pay dividends to us could limit our ability to access cash generated by the operations of those entities, including to make investments or acquisitions that could be beneficial to our businesses, pay dividends to our shareholders or otherwise fund and conduct our business.

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Discontinuation of the preferential tax treatment available to us in China could adversely affect our business, operating results and financial condition.

Pursuant to a Circular on Enterprise Income Tax Preferential Treatments (《關於企業所得稅若干優惠政策的通知》) issued by the State Administration of Taxation and the Ministry of Finance effective as of February 22, 2008, as partially amended by a Circular on Enterprise Income Tax Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry (《關於進一步鼓勵軟體產業和積體電路產業發展企業所得稅政策的通知》), a qualified software enterprise is eligible to be exempted from income tax for its first two profitable years, followed by a 50% reduction in income tax, to a rate of 12.5%, for the subsequent three years. Guangzhou Quwan, is recognized as a qualified software enterprise and is eligible to be exempted from income tax for 2018 and 2019, followed by a 50% reduction in income tax from 2020 through 2022. In addition, Guangzhou Quwan is qualified as a “high and new technology enterprises strongly supported by the state,” or HNTEs, to enjoy a certain preferential income tax benefit under PRC tax laws and regulations. The PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), most recently amended on December 29, 2018 and its implementation rules generally impose a uniform income tax rate of 25% on all enterprises, but grant preferential treatment to HNTEs, to enjoy a reduced enterprise tax rate of 15%. According to the relevant administrative measures, to qualify as an HNTE, Guangzhou Quwan must meet certain financial and non-financial criteria and complete verification procedures with the administrative authorities. Continued qualification as an HNTE is subject to a three-year review by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification. Pursuant to the PRC law, Guangzhou Quwan may only enjoy one of the foregoing preferential tax treatments. In the event the preferential tax treatment for Guangzhou Quwan is discontinued or is not verified by the local tax authorities, and the affected entity fails to obtain preferential tax treatments based on other qualifications such as Advanced Technology Service Enterprise, it will become subject to the standard tax rates and policies, including the PRC enterprise income tax rate of 25%. We cannot assure you that the tax authorities will not, in the future, discontinue our preferential tax treatment, potentially with retroactive effect.

We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.

Under the modified Enterprise Income Tax Law and its implementing rules, enterprises established under the laws of jurisdictions outside of China with “de facto management bodies” located in China may be considered PRC tax resident enterprises for tax purposes and may be subject to the PRC enterprise income tax at the rate of 25% on their global income. “De facto management body” refers to a managing body that exercises substantive and overall management and control over the production and business, personnel, accounting books and assets of an enterprise. The State Taxation Administration, or the SAT, issued the Notice Regarding the Determination of Chinese-Controlled Offshore-Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, on April

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22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by foreign enterprises or individuals, the determining criteria set forth in Circular 82 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups. If we were to be considered a PRC resident enterprise, we would be subject to PRC enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow may be materially reduced as a result of our global income being taxed under the Enterprise Income Tax Law. We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.”

Dividends payable to our foreign investors may become subject to PRC withholding tax and gains on the sale of the [REDACTED] or our ordinary shares by our foreign investors may become subject to PRC tax.

Under the modified Enterprise Income Tax Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Any gain realized on the transfer of the [REDACTED] or ordinary shares by such investors is also subject to PRC tax at a current rate of 10% if such gain is regarded as income derived from sources within the PRC. If we are deemed a PRC resident enterprise as described in the immediately preceding risk factor, dividends paid on our ordinary shares and the [REDACTED], and any gain realized from the transfer of our ordinary shares or the [REDACTED], may be treated as income derived from sources within the PRC and would as a result be subject to PRC taxation. Furthermore, if we are deemed a PRC resident enterprise, dividends payable to individual investors who are non-PRC residents and any gain realized on the transfer of the [REDACTED] or ordinary shares by such investors may be subject to PRC tax at a current rate of 20% (which in the case of dividends may be withheld at source). If we are considered a PRC resident enterprise, any PRC tax liability may be reduced under applicable income tax treaties, but it is unclear whether holders of the [REDACTED] or our ordinary shares would be able to obtain the benefit of income tax treaties or agreements entered into between China and other countries or areas. If dividends payable to our non-PRC investors, or gains from the transfer of the [REDACTED] or our ordinary shares by such investors, are deemed as income derived from sources within the PRC and thus are subject to PRC tax, the value of your investment in the [REDACTED] or our ordinary shares may decline significantly.

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We and our shareholders face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies.

On February 3, 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), or Bulletin 7, which partially replaced and supplemented previous rules under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or SAT Circular 698, issued by the SAT on December 10, 2009. Pursuant to this Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Bulletin 7 does not apply to transactions of sale of equity securities by investors through a public stock exchange where such equity securities were acquired from a transaction through a public stock exchange (the “public trading safe harbor”). On October 17, 2017, the SAT promulgated the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》), or SAT Circular 37, which was amended and became effective on June 15, 2018, and SAT Circular 698 then was repealed with

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effect from December 1, 2017. SAT Circular 37 also amends certain provisions in Bulletin 7, but does not touch upon other provisions of Bulletin 7, which remain in full force. SAT Circular 37, among other things, simplified procedures of withholding and payment of income tax levied on non-resident enterprises.

There is uncertainty as to the application of Bulletin 7 and SAT Circular 37. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore entities or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions under Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises that does not qualify for the public trading safe harbor, Zhuhai Huanquhui may be requested to assist in the filing under Bulletin 7. As a result, we may be required to expend valuable resources to comply with Bulletin 7 and SAT Circular 37 or to request the relevant transferors from whom we purchase taxable assets to comply with Bulletin 7 and SAT Circular 37, or to establish that our company should not be taxed under Bulletin 7 and SAT Circular 37, which could adversely affect our business, operating results and financial condition.

We are subject to restrictions on currency exchange.

A substantial portion of our revenue is denominated in Renminbi. The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our company in the Cayman Islands may rely on dividend payments from our PRC subsidiary to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our wholly foreign-owned subsidiaries in China are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by our shareholders or the ultimate shareholders of our corporate shareholders who are PRC residents. But approval from or registration with appropriate government authorities or delegated banks is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the [REDACTED].

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PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the [REDACTED] of this [REDACTED] to make loans to Zhuhai Huanquhui and Guangzhou Quwan, or to make additional capital contributions to Zhuhai Huanquhui.

In using the [REDACTED] of this [REDACTED], we, as an offshore holding company, are permitted under PRC laws and regulations to provide funding to Zhuhai Huanquhui, which is treated as a foreign-invested enterprise under PRC law, through loans or capital contributions. We may also make loans to our PRC subsidiaries and Guangzhou Quwan and its subsidiaries subject to the approval from or registration with governmental authorities and limitation on amount. However, loans by us to Zhuhai Huanquhui or Guangzhou Quwan to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE and capital contributions to Zhuhai Huanquhui is subject to the requirement of making necessary filings or registrations through enterprise registration system with relevant governmental authorities in China.

SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), or Circular 19, effective on June 1, 2015, in replacement of former regulations. According to Circular 19, the flow and use of the Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that Renminbi capital may not be used for the issuance of Renminbi entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although Circular 19 allows Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within the PRC, it also reiterates the principle that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in the PRC in actual practice. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. Circular 19 and Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net [REDACTED] from this [REDACTED], to Zhuhai Huanquhui and Guangzhou Quwan, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC. On October 23, 2019, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (the “Circular 28”), which, among other things, allows all foreign-invested companies to use Renminbi converted from foreign currency-

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denominated capital for equity investments in the PRC, as long as the equity investment is genuine, does not violate applicable laws, and complies with the Negative List. Since Circular 28 was issued only recently, its interpretation and implementation in practice are still subject to substantial uncertainties. According to the Circular on Optimizing the Administration of Foreign Exchange to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》) issued by the SAFE on 10 April 2020, eligible enterprises are allowed to make domestic payments using the income under their capital accounts generated from their capital, foreign debt and overseas listing, without providing materials evidencing the authenticity in advance; provided that the capital usage is authentic and compliant with the current capital account income usage management regulations. The concerned bank is required to conduct spot checks in accordance with the relevant requirements.

We are not likely to finance the activities of Guangzhou Quwan by means of capital contributions given the potential restrictions on foreign investment in the businesses that are currently conducted by Guangzhou Quwan. In light of the various requirements imposed by PRC regulations on loans to, and direct investment in, PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans to Zhuhai Huanquhui or Guangzhou Quwan or future capital contributions by us to Zhuhai Huanquhui. As a result, uncertainties exist as to our ability to provide prompt financial support to Zhuhai Huanquhui or Guangzhou Quwan when needed. If we fail to complete such registrations or obtain such approvals, our ability to use foreign currency, including the [REDACTED] we received from this [REDACTED], and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

RISKS RELATED TO THE [REDACTED]

The interests of our Controlling Shareholders may differ from your interests and they may exercise their voting power to the disadvantage of our minority Shareholders.

Immediately following the completion of the [REDACTED], our Controlling Shareholders will control [REDACTED]% of our total issued share capital (assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan). Accordingly, the Controlling Shareholders will, for the foreseeable future, through their voting control, be able to exercise substantial influence over our operations and business strategy, such as matters related to the composition of our Board, selection of our senior management, amount and timing of dividends and other distributions, our overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, amendment to our memorandum and articles of association, and other corporate actions requiring approval of our Shareholders, including merger, consolidation or sale of our assets, or any other change of control event that may affect our other Shareholders generally. Such voting control may discourage certain types of transactions, including those involving an actual or potential change of control of our Company. In the event that there is a divergence of our strategic and other interests from those

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of the Controlling Shareholders in the future, the Controlling Shareholders may exercise control over our Company in ways that conflict with the interests of our other Shareholders, and minority Shareholders could be disadvantaged.

No public market currently exists for the [REDACTED]; the market price for the [REDACTED] may be volatile and an active trading market for the [REDACTED] may not develop, which could result in substantial losses to you.

No public market currently exists for the [REDACTED]. The [REDACTED] may differ significantly from the market price of the [REDACTED] following the [REDACTED]. We have applied to the Stock Exchange for the [REDACTED] of, and permission to deal in, the [REDACTED]. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the [REDACTED] will develop, or if it does develop, that it will be sustained following the [REDACTED], or that the market price of the Shares will not decline following the [REDACTED].

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- regulatory developments in China affecting us, our industry or our Contractual Arrangements;
- investors’ perception of us and of the investment environment in Asia, including Hong Kong and China;
- developments in the market for gamer-centric mobile social platforms in China;
- changes in the economic performance or market valuations of other gamer-centric mobile social platforms;
- the depth and liquidity of the market for our Shares;
- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on our Shares;

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- sales or anticipated sales of additional Shares, including, in particular, those by our Controlling Shareholders; and
- the general economy and other factors.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past and the securities market has from time to time experienced significant price and volume fluctuations. It is possible that our Shares may be subject to changes in price not directly related to our performance. These market fluctuations may also materially and adversely affect the price of and trading volume of our Shares.

Because the initial [REDACTED] is substantially higher than the [REDACTED] net tangible book value per Share, you will experience immediate and substantial dilution.

If you purchase the [REDACTED] in the [REDACTED], you will pay more for each [REDACTED] than the corresponding amount paid by existing Shareholders for their Shares. As a result, you will experience immediate and substantial dilution upon purchase of the Shares in the [REDACTED].

Substantial future sales or the expectation of substantial sales of our shares in the public market could cause the market price of our Shares to decline.

Although our Controlling Shareholders are subject to a lock-up after the [REDACTED] as described in “[REDACTED]” in this document, future sales of a significant number of our shares by our Controlling Shareholders in the public market after the expiry of the lock-up period, or the perception that these sales could occur, could cause the market price of our shares to decline and could materially impair our future ability to raise capital through [REDACTED] of our shares.

We cannot assure you that our Controlling Shareholders will not dispose of shares held by them due to events triggering significant capital needs of our Controlling Shareholders, such as repayment of bank borrowings or other indebtedness, resolution of disputes or legal or administrative proceedings, and any significant investment, merger and acquisition transaction, or enforcement of certain share pledge over the Controlling Shareholders’ interest in our Company, or that we will not issue shares pursuant to the general mandate to issue shares granted to our Directors as described in “Statutory and General Information” in Appendix IV to this document or otherwise, upon the expiration of restrictions set out above. Substantial sales of shares by our Controlling Shareholders could result in a change of control of our Company. We cannot predict the effect, if any, that any future sales of shares by our Controlling Shareholders, or the availability of shares for sale by our Controlling Shareholders, or the issuance of shares by the Company may have on the market price of the [REDACTED]. Sale or issuance of a substantial amount of shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

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We may not declare dividends on our Shares in the future.

The amount of any dividends to be declared or paid on our Shares will depend, in large part, on our results of operations, cash flows, financial condition, operating and capital requirements and applicable laws and regulations and will be subject to the approval of our Shareholders, except interim dividends which are not. See the section headed “Financial Information – Dividend and Dividend Policy.” There is no assurance that dividends of any amount will be declared or distributed in any year.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders in the Cayman Islands is different from other jurisdictions, you may have difficulties in protecting your Shareholder rights.

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Act and common law of the Cayman Islands. The rights of Shareholders to take legal action against our Directors and us, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in other jurisdictions. See “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV.

As a result of all of the above, our minority Shareholders may have difficulties in protecting their interests through actions against our management, Directors or major Shareholders.

Facts, forecasts and statistics in this document relating to the PRC economy and our industry may not be fully reliable.

Facts, forecasts and statistics in this document relating to the PRC, the PRC economy and our industry in China are obtained from various sources including official government publications that we believe are reliable, as well as from a report prepared by Frost & Sullivan commissioned by us. However, we cannot guarantee the quality or reliability of these sources. Neither we, the [REDACTED], the Joint Sponsors, the [REDACTED] or any other party involved in the [REDACTED] nor our or their respective affiliates or advisers have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the PRC, the PRC economy and our industry may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from various sources is made.

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Moreover, these facts, forecasts and statistics involve risks and uncertainties and are subject to change based on various factors, some of which are not under our control, and should not be unduly relied upon. Further, there can be no assurances that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries.

We may need additional capital, and the sale or issue of additional Shares or other equity securities, including pursuant to the 2020 Plan, could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the net [REDACTED] from the [REDACTED], we may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing of investments in and/or acquisitions of new businesses from third parties, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing through selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our Shareholders. Furthermore, we may issue Shares pursuant to the exercise of options granted under the 2020 Plan, which would further dilute Shareholders’ interests in our Company. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to serve the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial condition may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors’ perception of, and demand for, securities of game-centric mobile social platforms;
- conditions in Hong Kong and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in value-added telecommunication services in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

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We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities or reduce our growth to a level that can be supported by our cash flow, or defer planned expenditures.

There will be a gap of several days between pricing and trading of our Shares, and the price of the [REDACTED] when trading begins could fall during the period before trading of our Shares begins.

The [REDACTED] of the [REDACTED] is expected to be determined on the [REDACTED]. However, the [REDACTED] will not commence trading on the Stock Exchange until they are delivered, which is expected to be not more than five business days after the [REDACTED]. As a result, holders of our Shares may not be able to sell or otherwise deal in the [REDACTED] during that period. Accordingly, holders of the [REDACTED] are subject to the risk that the price of the [REDACTED] when trading begins could fall before trading begins as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

We have significant discretion as to how we will use the net [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend the net [REDACTED] from the [REDACTED] in ways you may not agree with or that do not yield a favorable return. We plan to use the net [REDACTED] from the [REDACTED] to invest in overseas expansion, our product offerings, user growth and new business initiatives to cultivate our social and entertainment ecosystem, for research and development to improve our user experience and strengthen our commercialization capabilities and for other general corporate purposes. For details of our intended use of [REDACTED], see “Future Plans and Use of [REDACTED]” in this document. However, our management will have discretion as to the actual application of our net [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net [REDACTED] from this [REDACTED].

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

There may be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED], which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective [REDACTED] are cautioned to make their [REDACTED] decisions on the basis of the information contained in this document only and should not rely on any other information.

RISK FACTORS

You should rely solely upon the information contained in this document, the [REDACTED] and any [REDACTED] made by us in Hong Kong in making your [REDACTED] decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective [REDACTED] should not rely on any such information, reports or publications in making their decisions as to whether to [REDACTED] in our [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

WAIVERS AND EXEMPTIONS

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemptions from compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Our Group’s management, headquarters, assets and business operations are primarily based, managed and conducted in the PRC. Currently, none of our executive Directors ordinarily resides in Hong Kong. The senior management of the Group are also primarily based in the PRC and they manage the Group’s business operations from the PRC. As our executive Directors and the senior management team play important roles in the Company’s business operations, our Directors consider that it is in the best interests of the Company for the executive Directors and the senior management team to be based in places where the Group has significant operations. As such, we do not, and will not for the foreseeable future, have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, namely Mr. Song, our executive Director and Ms. Ng Wai Kam (伍偉琴) (“Ms. Ng”), one of our joint company secretaries, to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our authorized representatives will be readily contactable by the Stock Exchange based on information provided to the Stock Exchange for the contact details of authorized representatives and will be available to meet with the Stock Exchange within a reasonable period of time upon request of the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange and shall be authorized to accept service of process and notices on behalf of our Company in Hong Kong under the Companies Ordinance;
- (b) we will implement a policy to provide the contact details of each Director (such as mobile phone numbers and email addresses) to each of the authorized representatives and to the Stock Exchange. This will ensure that each of the authorized representatives, our company secretaries and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are traveling;

WAIVERS AND EXEMPTIONS

- (c) we will ensure that all Directors who are not ordinarily resident in Hong Kong either possess, or can apply for, valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;
- (d) we have appointed Rainbow Capital (HK) Limited as our compliance advisor (the “**Compliance Advisor**”) upon [REDACTED], in compliance with Rule 3A.19 of the Listing Rules. The Compliance Advisor will serve as an additional channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Advisor has prompt access to our Company’s authorized representatives and Directors who will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor’s duties. The Compliance Advisor will also provide advice in compliance with Rule 3A.23 of the Listing Rules; and
- (e) meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Advisor, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives, the Directors and/or the Compliance Advisor in accordance with the Listing Rules.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experiences, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Pursuant to Note 1 to Rules 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

WAIVERS AND EXEMPTIONS

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other listed companies and the roles he or she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Sha Dachuan (沙大川) (“**Mr. Sha**”) as one of the joint company secretaries of our Company. Mr. Sha has extensive experience in our business operations and corporate governance matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules. While Mr. Sha may not be able to solely fulfill the requirements of the Listing Rules, our Company believes that it would be in the best interests of our Company and the corporate governance of our Company to appoint Mr. Sha as our joint company secretary due to his thorough understanding of the internal administration and business operations of our Group. Our Company has also appointed Ms. Ng to act as the other joint company secretary. Ms. Ng is a Chartered Secretary, a Chartered Governance Professional, an associate of The Hong Kong Chartered Governance Institute (HKCGI) (formerly “The Hong Kong Institute of Chartered Secretaries”) and an Associate of The Chartered Governance Institute (CGI) (formerly “The Institute of Chartered Secretaries and Administrators”), who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Sha for an initial period of three years from the [REDACTED] to enable Mr. Sha to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Since Mr. Sha does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for[, and the Stock Exchange has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Sha may be appointed as a joint company secretary of our Company. Pursuant to the Guidance Letter HKEX-GL108-20, the waiver will be for a fixed period of time (“**Waiver Period**”) and on the following conditions: (i) the proposed company secretary must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 (“**Qualified Person**”) and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by the issuer. The waiver is valid for an initial period of three years from the [REDACTED], and is granted on the condition that Ms. Ng, as a joint company secretary of our Company, will work closely with, and provide assistance to, Mr. Sha

WAIVERS AND EXEMPTIONS

in the discharge of his duties as a joint company secretary and in gaining the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. Given Ms. Ng’s professional qualifications and experience, she will be able to explain to both Mr. Sha and our Company the relevant requirements under the Listing Rules. Ms. Ng will also assist Mr. Sha in organizing Board meetings and Shareholders’ meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. She is expected to work closely with Mr. Sha, and will maintain regular contact with Mr. Sha, the Directors and the senior management of our Company. The waiver will be revoked immediately if Ms. Ng ceases to provide assistance to Mr. Sha as a joint company secretary for the three-year period after the [REDACTED] or where there are material breaches of the Listing Rules by our Company. In addition, Mr. Sha will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the [REDACTED].

In the course of preparation of the [REDACTED], Mr. Sha attended a training seminar on the respective obligations of the Directors and senior management and our Company under the relevant Hong Kong laws and the Listing Rules provided by our Company’s Hong Kong legal adviser and has been provided with the relevant training materials. Our Company will further ensure that Mr. Sha has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an issuer [REDACTED] on the Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, both Mr. Sha and Ms. Ng will seek and have access to advice from our Company’s Hong Kong legal and other professional advisers as and when required. Our Company has appointed Rainbow Capital (HK) Limited as the Compliance Advisor upon our [REDACTED] pursuant to Rule 3A.19 of the Listing Rules, which will act as our Company’s additional channel of communication with the Stock Exchange, and provide professional guidance and advice to our Company and its joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations.

Before the expiration of the three-year period, the qualifications and experience of Mr. Sha will be further evaluated by our Company to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for ongoing assistance of Ms. Ng will continue. We will liaise with the Stock Exchange to enable it to assess whether Mr. Sha, having benefited from the assistance of Ms. Ng for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the “relevant experience” within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

Please refer to the section headed “Directors and Senior Management” in this Document for further information regarding the qualifications of Mr. Sha and Ms. Ng.

WAIVERS AND EXEMPTIONS

WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Company has entered into, and is expected to continue after the [REDACTED], certain transactions in respect of the Contractual Arrangements which will constitute non-exempt continuing connected transactions as defined under the Listing Rules. We have applied to the Stock Exchange for, and 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 connected transactions 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 our Shares are [REDACTED] on the Stock Exchange, subject to certain conditions. For further information on such waiver please refer to the section headed "Connected Transactions" in this Document.

WAIVER AND EXEMPTION IN RELATION TO THE 2020 GLOBAL EMPLOYEE INCENTIVE PLAN

Rule 17.02(1)(b) of the Listing Rules requires a listing applicant to, inter alia, disclose in the document full details of all outstanding options and their potential dilution effect on the shareholdings upon [REDACTED] as well as the impact on the earnings per share arising from the exercise of such outstanding options.

Paragraph 27 of Appendix 1A to the Listing Rules requires a listing applicant to disclose, inter alia, particulars of any capital of any member of the group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, or an appropriate negative statement, provided that where options have been granted or agreed to be granted to all the members or debenture holders or to any class thereof, or to employees under a share option scheme, it shall be sufficient, so far as the names and addresses are concerned, to record that fact without giving the names and addresses of the grantees.

Under Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the [REDACTED] must state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the number, description and amount of any shares in or debentures of the company which any person has, or is entitled to be given, an option to subscribe for, together with the particulars of the option, that is to say, (a) the period during which it is exercisable; (b) the price to be paid for shares or debentures subscribed for under it; (c) the consideration (if any) given or to be given for it or for the right to it; and (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing shareholders or debenture holders as such, the relevant shares or debentures, must be specified in the [REDACTED].

WAIVERS AND EXEMPTIONS

As of the Latest Practicable Date, our Company had granted options under the 2020 Global Employee Incentive Plan to 190 grantees to subscribe for an aggregate of 12,252,108 Shares, representing approximately [REDACTED]% of our Company’s issued share capital immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Global Employee Incentive Plan) for which the grantees include senior management members (with respect to 2,580,330 underlying Shares). No option was granted to our Directors or other connected persons. None of the options has been exercised.

Our Company has applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Appendix 1A to, the Listing Rules; and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the grounds that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (1) since the outstanding options under the 2020 Global Employee Incentive Plan were granted to a total of 190 grantees involved, strict compliance with the relevant disclosure requirements to disclose names, addresses, and entitlements on an individual basis in the document will require substantial number of pages of additional disclosure that does not provide any material information to the [REDACTED] public and would significantly increase the cost and timing for information compilation and document preparation;
- (2) key information of the options granted under the 2020 Global Employee Incentive Plan to senior management members of our Company has already been disclosed in this Document under the section headed “Appendix V – Statutory and General Information – D. Employee Incentive Plan”;
- (3) the key information of the 2020 Global Employee Incentive Plan as disclosed in this Document under the section headed “Appendix V – Statutory and General Information – D. Employee Incentive Plan” is sufficient to provide potential [REDACTED] with information to make an informed assessment of the potential dilution effect and impact on earnings per share of the options granted under the 2020 Global Employee Incentive Plan in their [REDACTED] decision making process;
- (4) with respect to the grantees other than the senior management members, such number of Shares (representing only approximately [REDACTED]% of the total issued share capital of our Company immediately following the completion of the [REDACTED], assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Global Employee Incentive Plan) is not material in the circumstances of our Company, and the exercise in full of such share options will not cause any material adverse change in the financial position of our Company; and

WAIVERS AND EXEMPTIONS

- (5) the lack of full compliance with such disclosure requirements will not prevent potential [REDACTED] from making an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group and will not prejudice the interest of the [REDACTED] public.

The Stock Exchange [has granted] us a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Part A of Appendix 1 to the Listing Rules on the conditions that the following information will be clearly disclosed in this Document:

- (a) on individual basis, full details of all the options granted by our Company under the 2020 Global Employee Incentive Plan to each of the senior management members, including all the particulars required under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules;
- (b) in respect of the options granted by our Company to the grantees other than those referred to in sub-paragraph (a) above:
- a. the aggregate number of the grantees and the number of Shares subject to the options;
 - b. the date of the grant of the options; and
 - c. the exercise period and the exercise price for the options;
- (c) the dilution effect and impact on earnings per Share upon full exercise of the 12,252,108 outstanding options granted under the 2020 Global Employee Incentive Plan;
- (d) the aggregate number of Shares subject to the outstanding options granted by our Company under the 2020 Global Employee Incentive Plan and the percentage of our Company's issued share capital of which such number represents;
- (e) a summary of the 2020 Global Employee Incentive Plan; and
- (f) the list of all the grantees (including the persons referred to in paragraph (b) above), containing all details as required under Rule 17.02(1)(b), paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with the section headed "Appendix VI – Documents Delivered to the Registrar of Companies and Available on Display" of this Document.

WAIVERS AND EXEMPTIONS

The SFC has [agreed to grant] to our Company a certificate of exemption under Section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, subject to the conditions that:

- (a) full details of all the options granted under the 2020 Global Employee Incentive Plan to each senior management members, including all the particulars required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (b) in respect of the options granted by our Company to the grantees other than those referred to in sub-paragraph (a), the following details be disclosed in this Document:
 - (i) the aggregate number of the grantees and the number of Shares subject to the options; and
 - (ii) the exercise period and the exercise price for the options;
- (c) a list of all the grantees (including the persons referred to in sub-paragraph (b) above) who have been granted options to subscribe for Shares under the 2020 Global Employee Incentive Plan, containing all details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, be made available for public inspection in accordance with the section headed “Appendix VI – Documents Delivered to the Registrar of Companies and Available on Display” of this Document; and
- (d) the particulars of the exemption be disclosed in this Document and that this Document will be issued on or before [REDACTED].

Further details of the 2020 Global Employee Incentive Plan are set forth in the section headed “Appendix V – Statutory and General Information – D. Employee Incentive Plan” of this Document.

WAIVERS AND EXEMPTIONS

WAIVER FROM COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM COMPLIANCE WITH SECTION 342(1) IN RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

The Accountant's Report set out in Appendix I to this Document contains the audited consolidated results of our Group for the three years December 31, 2018, 2019 and 2020 and the [nine] months ended [September 30], 2021. The profit/(loss) estimate set out in Appendix IIA contains the profit/(loss) estimate for the year ended December 31, 2021 which is estimated by the Directors based on the audited results for the [nine] months ended [September 30], 2021 and the management accounts for the [three] months ended December 31, 2021.

Rule 4.04(1) of the Listing Rules requires that the consolidated results of our Group in respect of each of the three financial years immediately preceding the issue of the [REDACTED] document be included in the Accountant's Report to this Document.

Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all [REDACTED] to include an accountant's report which contains the matters specified in the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that we set out in this Document a statement as to the gross trading income or sales turnover (as may be appropriate) of our Group during each of the three financial years immediately preceding the issue of this Document.

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that we include in this Document a report by the auditors with respect to the profit and loss of our Group for each of the three financial years ended immediately preceding the issue of this Document and the assets and liabilities of our Group as at the end of each of the three financial years ended immediately preceding the issue of this Document.

WAIVERS AND EXEMPTIONS

An application has been made to the to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the Accountant’s Report for the full financial year ended December 31, 2021 in this Document on the following grounds:

- (a) our Directors are of the view that there is no event which would materially affect the information contained in the Accountant’s Report and the profit/(loss) estimate of our Group as contained in Appendix IIA to this Document. Our Directors consider that all information that is reasonably necessary for the potential [REDACTED] to make an informed assessment of the activities or financial position of our Group has been included in this Document;
- (b) our Directors believe that a waiver from strict compliance with Rule 4.04(1) of the Listing Rules would not prejudice the interests of the [REDACTED] public;
- (c) our Company shall be [REDACTED] on the Stock Exchange within three months after December 31, 2021, being the latest financial year end of our Company;
- (d) this Document contains a statement from our Directors that there has been no material adverse change to the financial and trading positions or prospect of our Group since [September 30], 2021 (being the date of which the latest audited consolidated financial statement of our Group were made up) and up to December 31, 2021;
- (e) in accordance with Guidance Letter HKEX-GL-25-11, an estimate of the consolidated profit/(loss) of our Group for the year ended December 31, 2021 has been included in this Document. [REDACTED] public would thus be given some guidance as to the Company’s financial performance for the year ended December 31, 2021; and
- (f) our Company shall publish its annual results and annual report within the time prescribed under the Rules 13.49(1) and 13.46(1) of the Listing Rules, respectively.

The Stock Exchange [has granted] us a waiver from strict compliance with Rule 4.04(1) of the Listing Rules on the conditions that (i) the [REDACTED] shall not be later than three months after the latest financial year end of the Company (i.e. on or before March 31, 2022); (ii) we have obtained a certificate of exemption from the SFC from similar requirements under section 342(1) in relation to paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; (iii) a profit/(loss) estimate for the financial year ended December 31, 2021 in compliance with Rules 11.17 to 11.19 of the Listing Rules shall be included in this Document; and (iv) a Directors’ statement that there is no material adverse change to our financial and trading positions or prospects with specific reference to the trading results from [September 30], 2021 to December 31, 2021 shall be included in this Document.

WAIVERS AND EXEMPTIONS

In connection with a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting the Company from strict compliance with section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance mentioned above, an application has been made to the SFC for the certificate of exemption from strict compliance with section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the inclusion of the Accountant's Report for the full financial year ended December 31, 2021 in this Document on the following grounds:

- (a) our Directors are of the view that there is no event which would materially affect the information contained in the Accountant's Report and the profit/(loss) estimate of our Group as contained in Appendix IIA to this Document. Our Directors consider that all information that is reasonably necessary for the potential [REDACTED] to make an informed assessment of the activities or financial position of our Group has been included in this Document;
- (b) our Directors believe that an exemption from strict compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance would not prejudice the interests of the [REDACTED] public; and
- (c) strict compliance with section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance would be unduly burdensome in order for the audited results of our Group for the year ended December 31, 2021 to be finalized shortly after the 2021 year end. If the full year results of our Group for 2021 were to be included in this Document, there will be a considerable delay in the [REDACTED] timetable. If the financial information is required to be audited up to December 31, 2021, our Company and the reporting accountant would have to undertake a considerable amount of work to prepare, update and finalize the Accountant's Report to cover such additional period within a short period of time.

Our Directors consider that the benefits of such work to the prospective [REDACTED] of our Company may not justify the additional work and expenses involved and the delay in the [REDACTED] timetable, given that it is expected that there would be no significant change in the financial position of our Group since [September 30], 2021, being the expiry of the period reported on by PricewaterhouseCoopers, our Company's reporting accountant.

A certificate of exemption [has been granted] by the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) this Document will be issued on or before [REDACTED] and the Shares will be [REDACTED] on or before [REDACTED]; and (ii) the particulars of the exemption are set out in this Document.

WAIVERS AND EXEMPTIONS

Our Directors have confirmed that they have ensured that sufficient due diligence has been performed and that up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since [September 30], 2021 (being the date to which the latest consolidated financial statements of our Group were made up), including the [three] months up to December 31, 2021 and there has been no event which would materially affect the information shown in the Accountant’s Report (as set out in Appendix I to this Document) and the profit/(loss) estimate of our Group (as set out in Appendix IIA to this Document). The above confirmation of no material adverse change is based on the fact that profit/(loss) incurred by the Company for the [nine] months ended [September 30], 2021 was RMB[REDACTED] as set out in the accountant’s report in Appendix I of this Document and the profit/(loss) incurred by the Company for the year ended December 31, 2021 was not less/more than RMB[REDACTED] as set out in the profit/(loss) estimate in Appendix IIA of this Document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. Song Ke (宋克)	Room 2402, POLY Tianyue Garden No. 8 Huiyue First Street, Haizhu District, Guangzhou, Guangdong PRC	Chinese
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Mr. Chen Guangyao (陳光堯)	Room 2403, Building C, Dong Hai Jia Yuan, No. 96 Dongxing North Road, Yuexiu District, Guangzhou Guangdong, PRC	Chinese
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Mr. Du Guo (杜國)	Room 3202, Building 29 POLY Tianyue, Chenyue Road Haizhu District, Guangzhou Guangdong, PRC	Chinese
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Non-Executive Director

Mr. Wang Huadong (王華東)	No. 5 Ling Gen Bei Lu Wang Jia Zhuang Village Guo Du Town, Xin Tai Shandong, PRC	Chinese
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Independent Non-Executive Directors

Mr. Mak Yau Kee Adrian (麥佑基)	Flat 9C, 1 Homantin Hill Road Kowloon, Hong Kong	Chinese
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Mr. Chen Zhaoming (陳兆明)	Room 8B No. 813 Jiangsu Road Shanghai, PRC	Chinese
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Mr. He Dongdong (賀東東)	Rooms 303 to 309 East Pazhou Avenue No. 3 Haizhu District Guangzhou, Guangdong, PRC	Chinese
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Please refer to the section headed “Directors and Senior Management” in this Document for further information with respect to our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

China International Capital Corporation

Hong Kong Securities Limited

29/F, One International Finance Centre
1 Harbour View Street Central
Hong Kong

Jefferies Hong Kong Limited

Suite 2201, 22/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]

Legal Advisers to our Company

As to Hong Kong law and United States law

Davis Polk & Wardwell

18th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law

Commerce & Finance Law Offices

12-14th Floor, China World Office 2
No. 1 Jianguomenwai Avenue
Beijing
PRC

As to Cayman Islands law

Maples and Calder (Hong Kong) LLP

26th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisers to the Joint Sponsors and the [REDACTED]

As to Hong Kong law and United States law

Skadden, Arps, Slate, Meagher & Flom and affiliates

42/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Central
Hong Kong

As to PRC law

Fangda Partners

27/F, North Tower, Beijing Kerry Centre
1 Guanghua Road, Chaoyang District
Beijing
PRC

Reporting Accountant and Auditor

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

22/F, Prince's Building
Central
Hong Kong

Property valuer

Avista Valuation Advisory Limited

23rd Floor, Siu On Centre
No. 188 Lockhart Road, Wanchai
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Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

Room 1018, Tower B
No. 500 Yunjin Road
Xuhui District
Shanghai, PRC

[REDACTED]

CORPORATE INFORMATION

Registered Office	PO Box 309, Uglan House Grand Cayman KY1-1104 Cayman Islands
Head Offices and Principal Places of Business in China	19/F, Tower B, GRG Square 163 Huangpu Avenue West Pingyun Road Tianhe District, Guangzhou Guangdong Province PRC
Principal Place of Business in Hong Kong	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company's Website	<u>www.52tt.com</u> <i>(The information contained in this website does not form part of this Document)</i>
Joint Company Secretaries	Mr. Sha Dachuan (沙大川) Room 2402, No. 8 Huiyue First Street Haizhu District, Guangzhou Guangdong, PRC Ms. Ng Wai Kam (伍偉琴) <i>Associate member of both the Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute</i> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Authorized Representatives	Mr. Song Ke (宋克) Room 2402, POLY Tianyue Garden No. 8 Huiyue First Street, Haizhu District Guangzhou, Guangdong, PRC Ms. Ng Wai Kam (伍偉琴) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

CORPORATE INFORMATION

Audit Committee

Mr. Chen Zhaoming (陳兆明)

(*Co-Chairperson*)

Mr. Mak Yau Kee Adrian (麥佑基)

(*Co-Chairperson*)

Mr. He Dongdong (賀東東)

Remuneration Committee

Mr. He Dongdong (賀東東) (*Chairperson*)

Mr. Song Ke (宋克)

Mr. Chen Zhaoming (陳兆明)

Nomination Committee

Mr. Song Ke (宋克) (*Chairperson*)

Mr. Chen Zhaoming (陳兆明)

Mr. Mak Yau Kee Adrian (麥佑基)

Compliance Advisor

Rainbow Capital (HK) Limited

Room 5B, 12/F, Tung Ning Building

No. 2 Hillier Street, Sheung Wan

Hong Kong

[REDACTED]

Principal Bank

**The Hongkong and Shanghai Banking
Corporation Limited**

HSBC Main Building

1 Queen's Road

Central

Hong Kong

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this Document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. We believe that the sources of the information in this section and other sections of this Document are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information from official and non-official sources has not been independently verified by us, the Joint Sponsors, [REDACTED], any of the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy. Accordingly, the information from official and non-official sources contained herein may not be accurate and should not be unduly relied upon. For discussion of risks related to our industry, please see the section headed “Risk Factors – Risks Related to our Business and Industry.”

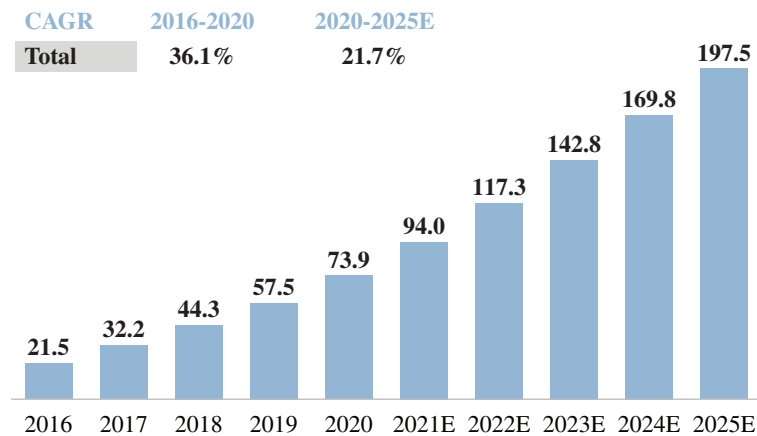
EVOLVING MOBILE SOCIAL NETWORKING INDUSTRY IN CHINA

The mobile social networking industry in China has been undergoing rapid development. As an extension of existing offline relationships, such as families, friends and business acquaintances, acquaintance-based mobile social networking is a major force of China’s mobile social networking industry. In recent years, however, with the increasing number of internet users which released huge socialization demand and the development of innovative interactive features and matching mechanisms, stranger-based social networking has emerged and has been growing rapidly, mainly consisting of appearance-centric and interests-based platforms. The former focus on the online matching of people for dating purposes, leading to offline relationships, while the latter focus on the expansion of social circles and online relationships building via sharing of content in specific topics such as games, music, anime and literature.

China’s mobile stranger-based social networking market in terms of revenues reached RMB73.9 billion in 2020 and is expected to grow at a CAGR of 21.7% to reach RMB197.5 billion in 2025, driven by the rapid growth in the mobile stranger-based social networking user base, increasing purchasing power and willingness to pay of these users and enhanced commercialization of stranger-based social networking platforms. Historical and future China’s mobile stranger-based social networking market sizes by revenue are illustrated in the below chart.

INDUSTRY OVERVIEW

China’s Mobile Stranger-based Social Networking Market Size by Revenue (in RMB Billions), 2016 – 2025E



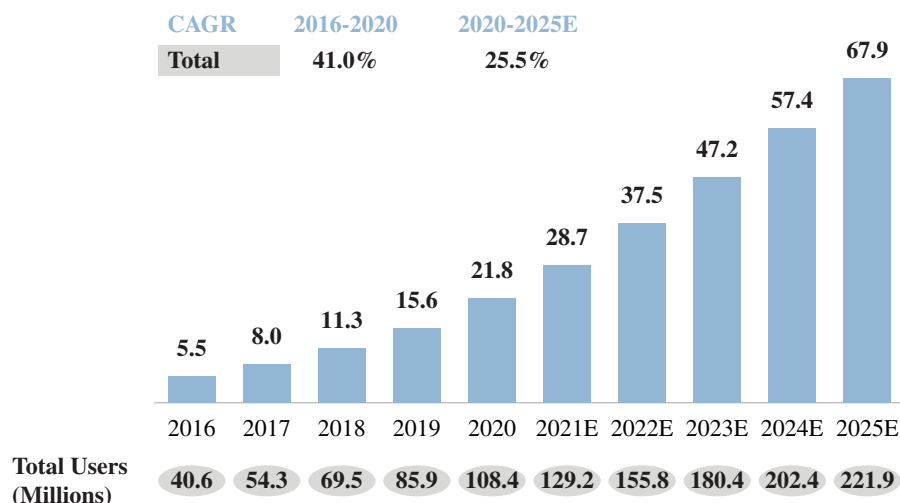
Source: Frost & Sullivan Report

Rising Voice-based Mobile Social Networking Industry in China

Voice-based mobile social networking platforms primarily facilitate voice-based interactions among users via different interactive functions and entertainment scenarios such as voice chat rooms, audio streaming, online karaoke, among others.

Voice-based mobile social networking is a fast-growing industry in China with huge growth potentials. In 2020, the size of China’s voice-based mobile social networking market in terms of revenues reached RMB21.8 billion, which is expected to grow at a CAGR of 25.5% to reach RMB67.9 billion in 2025. The total voice-based mobile social networking user base was 108.4 million in 2020, up from 40.6 million in 2016, and is expected to further grow to 221.9 million in 2025, as set forth below:

China’s Voice-based Mobile Social Networking Market Size by Revenue (in RMB billions) and Total User Base, 2016 – 2025E



INDUSTRY OVERVIEW

The strong growth in China’s voice-based mobile social networking market can be attributed to the below factors:

- *Strong desire for building deeper and longer-lasting social connections.* Voice-based interactions have become increasingly popular among users who wish to connect with others in a more genuine way to establish genuine and lasting relationships. They are more and more inclined towards expressing themselves via voice as they consider it to be more genuine in emotional expression and more secure as it leaves no trails, unlike photos and texts. A number of voice-based social networking platforms have therefore emerged to address such needs. These platforms enable voice-based interactions under different scenarios to facilitate relationship building, such as casual games, role-play dubbing and dating.
- *Growing needs for real-time interactions.* With the high smartphone ownership and advancement in mobile internet technology, users are increasingly looking for ways to stay connected and accompanied via their smartphones. Voice-based mobile social networking platforms have therefore been gaining popularity as voice can generate a greater sense of companionship compared with photos and texts. These platforms have combined voice-based interactions with other social networking and entertainment features such as esports gaming and online karaoke to cater to such user demand in an increasing number of scenarios and use cases.
- *Diversified and effective monetization methods.* Voice-based mobile social networking platforms are, on the one hand, introducing innovative features and functionalities to encourage users’ consumption of virtual items. These platforms are also exploring varied monetization methods such as paid memberships and advertising services. With such varied and effective monetization methods, the voice-based mobile social networking industry in China is expected to record continuous growth in the next few years.

Platforms in China’s voice-based mobile social networking market can focus on different scenarios to initially penetrate the desired target users. Such scenarios include gaming, personality matching, movie watching and others.

Voice-based interactions serve as the best medium, particularly for gamer-centric mobile social networking platforms, as opposed to appearance-centric social networking platforms where user interactions are mostly based on photos and text messages, due to their advantages as follows:

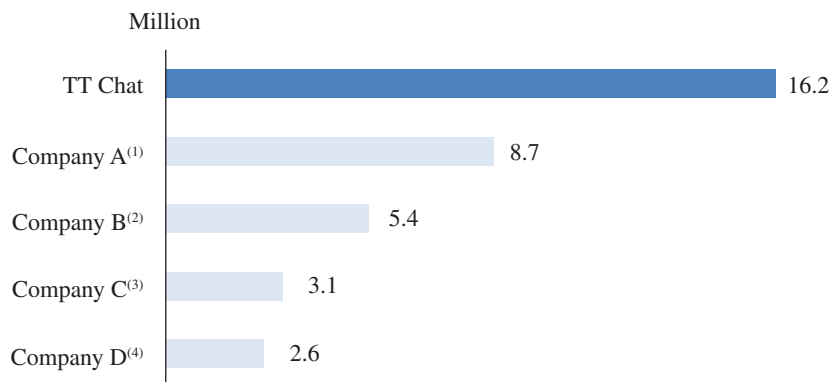
- *Natural and genuine relationships:* Chatting is one of the most natural forms of social interaction, particularly during gameplay. Voice-based interactions can therefore ease the bashfulness and mental strain that usually comes with photo- or video-based social networking, for cultural or privacy reasons. It is effective in creating a strong affinity and building connections between people.

INDUSTRY OVERVIEW

- *Minimal efforts:* Voice requires the least effort compared with typing texts, taking photos or creating videos. Voice-based social networking has the lowest barrier for people to engage in interaction with others.
- *Ubiquity:* Voice-based interactions can be carried out anytime and anywhere without occupying one’s attention completely, allowing for multi-tasking. In particular, gamers can interact via voice with their game buddies while they focus on the gameplay. Implicitly, voice-based mobile social networking platforms do not necessarily compete directly with other apps for users’ time spent or attention span.
- *Efficient and real-time communications:* Voice-based interactions are real-time, and often more direct and accurate, making the social environment more conducive for relationship building. Because of such nature, voice is the dominant form of users’ interactions in games and esports where conveying messages to teammates as quickly as possible is critical to an enjoyable gaming co-experience.

Competitive Landscape of Voice-based Mobile Social Platforms

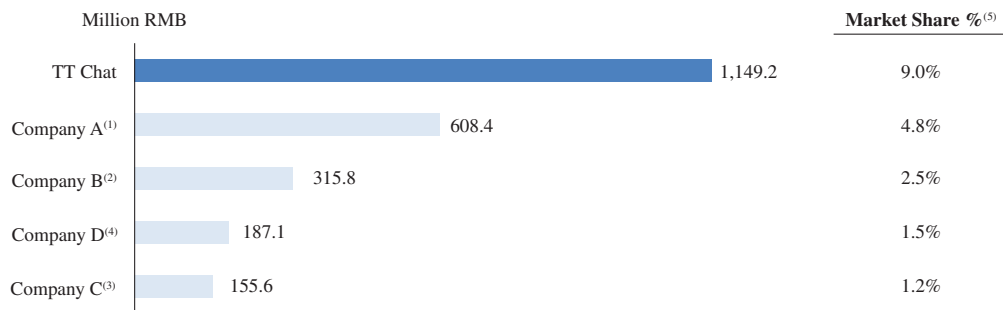
We are the leading voice-based mobile social platform in China, as measured by monthly active users and revenues in the first half of 2021. The following chart illustrates the top five voice-based mobile social platforms in China in terms of monthly active users in the first half of 2021:



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

The following chart illustrates the top five voice-based mobile social platforms in China in terms of revenues in the first half of 2021:



Source: Frost & Sullivan Report

- (1) Company A is a mobile social platform focused on esports game coaching services.
- (2) Company B is a mobile social platform focused on movie watching.
- (3) Company C is a voice-based mobile social platform owned by a US-listed company.
- (4) Company D is a voiced-based and gamer-centric mobile social platform owned by a US-listed company.
- (5) Based on the estimated size (in terms of revenue) of China’s voice-based mobile social networking market for the first half of 2021.

Entry Barriers for China’s Voice-based Mobile Social Networking Market

- *Real-time voice technology.* The real time voice technology is the fundamental technology of voice-based mobile social platforms. It is key to enabling instant, clear and stable communication among users. Platforms which have the technological infrastructure to accommodate a growing amount of voice interaction without negatively affecting user experience will be preferred by users.
- *User retention.* In order to retain users, complementary scenarios need to be created to encourage voice-based interactions, such as casual games and karaoke. Market players which can achieve seamless integration with such scenarios are expected to provide better social experience, thus higher user retention.
- *Content monitoring capability.* Voice-based interaction creates difficult technical hurdles in terms of content monitoring because it cannot be analyzed or interpreted like texts or images. Platforms are required to establish multiple layers of machine-based screening and manual reviews to ensure effective and timely content management.

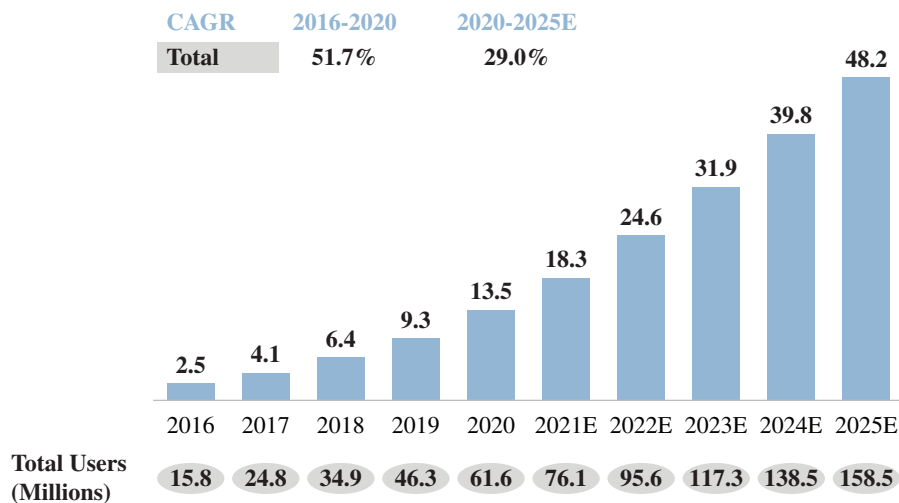
INDUSTRY OVERVIEW

Fast-Growing Gamer-centric Mobile Social Networking Industry in China

Gamer-centric mobile social networking platforms facilitate relationship building and social interactions primarily among gamers by providing functionalities that improve gameplay experience such as game buddy matching, coaching and voice chats, as well as other entertainment and interactive features. Such gamer-centric mobile social networking platforms primarily generate revenues from providing value-added services, such as virtual gifting, coaching, memberships and advertising. Since voice-based interactions are highly compatible with esports gameplay, some gamer-centric mobile social networking platforms are centered on voice-based features.

The size of the gamer-centric mobile social networking market in China in terms of revenues reached RMB13.5 billion in 2020, and is expected to grow at a CAGR of 29.0% to RMB48.2 billion in 2025. The total user base of gamer-centric mobile social networking reached 61.6 million in 2020, up from 15.8 million in 2016, and is expected to further grow to 158.5 million in 2025, as set forth below:

**China’s Gamer-centric Mobile Social Networking Market Size by Revenue
(in RMB Billions) and Total User Base, 2016 – 2025E**



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Key growth drivers of China’s gamer-centric mobile social networking market include:

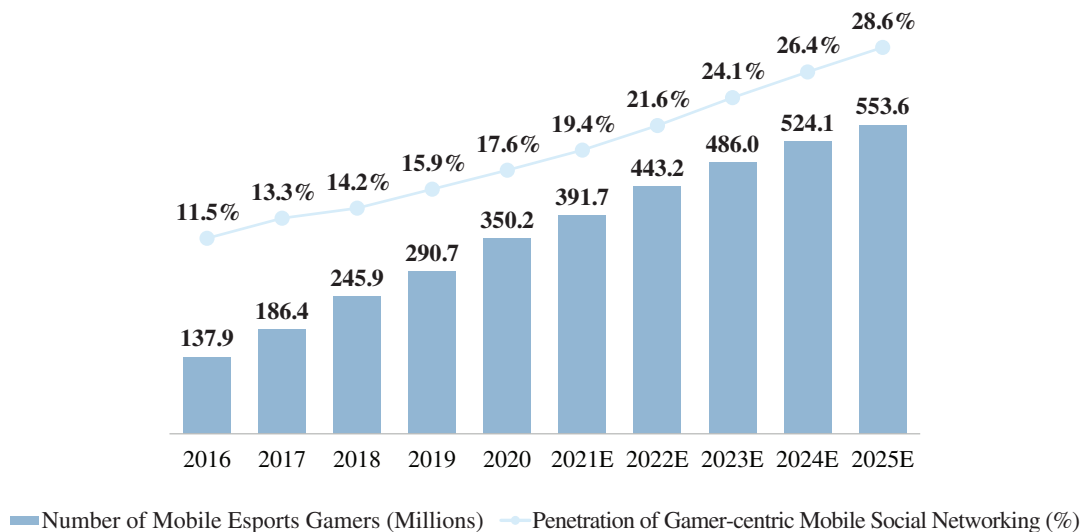
- *Growing mobile gamer base:* With the advancement in mobile technology, including the improved accessibility of mobile internet and affordability of mobile devices, mobile entertainment has become increasingly popular among the rising generations. Notably, mobile games have thrived in the online game industry, quickly surpassing PC games in terms of market size. With this favorable trend, the mobile gamer base has been growing rapidly as more people are attracted to mobile games because of their accessibility and the social elements embedded in such competitive games. This massive, growing mobile gamer base has become the major target user group of gamer-centric mobile social networking platforms.
- *Increasing need for teamwork in mobile games:* There is an industry trend that game developers tend to design mobile games to encourage teamwork and competition among multiple players, as opposed to single player games, to cultivate social connections among gamers, which in turn will improve players’ stickiness to the game. Most mobile gamers need effective real-time communication and seamless collaboration with teammates who have compatible skill levels and playing styles in order to excel in such games. To meeting such demand for collaboration in gameplay, the gamer-centric mobile social networking platforms offer accurate game buddy matching based on the skill levels and other relevant attributes to meet gamers’ demand for connection with suitable game buddies. In addition, gamer-centric mobile social networking platforms offer a broad range of socializing features such as instant messaging and virtual gifting to further extend the relationships among gamers beyond the gaming context.
- *Continued improvement and innovation in product features and user experience:* As the user base and penetration for gamer-centric mobile social networking continuously increase, user needs are becoming increasingly diversified. To meet such evolving user needs, platforms will continue to introduce new features and functionalities that offer better gaming and social networking experience. Enhanced user experience will, in turn, improve retention of existing users and attract new users, resulting in a virtuous cycle driving the growth of the gamer-centric mobile social networking market.
- *Application of new technologies for more accurate matching:* By utilizing advanced algorithms to analyze user profiles and behaviors, gamer-centric mobile social networking platforms can leverage their large and fast-growing user base to continuously enhance their user matching algorithms. Accurate and efficient matching is the key to attracting more gamers to use these social networking platforms, which is conducive to a more comprehensive matching database and a more effective matching engine.

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Growth of Gamer-centric Mobile Social Networking Industry Driven by Increasing Popularity of Esports

Mobile esports games represent a massive market in China with over 350.2 million esports players in 2020. Driven by the growing accessibility of mobile esports games, and intensified demand for entertainment, the number of mobile esports gamers is expected to increase to 553.6 million in 2025 in China, representing 45.1% of China’s mobile internet user population. The penetration of the gamer-centric mobile social networking platforms among China’s mobile esports gamer population reached 17.6% in 2020, and is expected to further grow to 28.6% in 2025.

Penetration of China’s Gamer-centric Mobile Social Networking in China’s Mobile Esports Gamers, 2016 – 2025E



Source: Frost & Sullivan Report

Esports gamers are an important driving force of the gamer-centric mobile social networking industry, because of their following attributes:

- Digital natives with long time spent online:* In 2020, 56.3% of mobile esports gamers in China are aged between 18 and 30, who have long been accustomed to the mobile internet, including social networking and entertainment, with substantial time spent on such platforms and services. Esports gamers in China spent an average of 341 minutes per day online in 2020.
- Rising purchasing power with high willingness to pay:* With the widespread adoption of mobile payment, increased variety of esports games available in the market and rising spending power, more and more esports gamers are increasing their spending on not just the esports games, but also value-added services and social entertainment services offered by gamer-centric mobile social networking platforms, such as virtual gifting, and membership services to enhance their gameplay experience and satisfy their social networking needs.

INDUSTRY OVERVIEW

- *Increasing demand for superior gaming co-experience and companionship:* esports gamers tend to have a burgeoning demand for online social interactions and personal relationships to ease their loneliness as most of them are the only child in their family. In addition, many of them become esports gamers because they enjoy the collaborative and competitive nature of esports, which require effective teamwork with other gamers who have compatible skill levels and playing styles. Gamer-centric mobile social networking platforms serve as an attractive channel for esports gamers to easily form and maintain new connections with and beyond their favorite online games, through a variety of interactive and innovative social entertainment features and scenarios.

Riding on the growth of the mobile esports game industry and esports gamers’ unique behaviors, gamer-centric mobile social networking platforms have been on the rise in China. These platforms offer various services and features to address the specific needs of esports gamers, including companionship, coaching, in-game communications. Such features enhance interactions among esports gamers and boost stickiness.

Gamer-centric Mobile Social Networks as Independent Third-party Platforms

Compared with the communication features embedded in mobile esports games, gamer-centric mobile social networking platforms serve as independent third-party platforms to provide the following extra benefits:

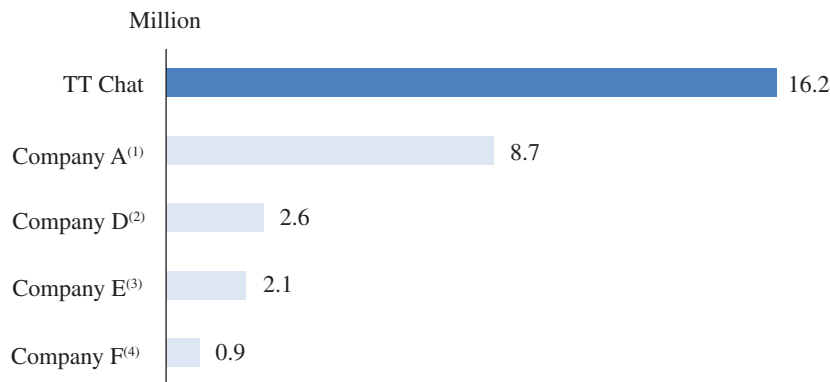
- *Personalized, insight-driven matching of game buddies:* Compared with in-game communication tools in mobile esports games, gamer-centric mobile social networking platforms utilize more sophisticated data analytics and machine learning to match esports gamers of similar skill levels, playing styles and other gaming-centric attributes for team play to enhance the gaming co-experience.
- *Diversified social and interactive features:* In addition to in-game communication functionalities provided by the mobile esports games, gamer-centric mobile social networking platforms often offer additional features that allow esports gamers to socialize, build and maintain relationships outside of the gaming context. Such features include virtual gifting, casual games, audio streaming, and messaging and moments.
- *One-stop solution for multiple popular online games:* Gamer-centric mobile social networking platforms usually cover the majority of popular esports games, and are able to add new ones which have amassed a large number of esports gamers under their coverage quickly. Esports gamers can keep their gaming preferences, list of teammates and chat history in one place for a more immersive experience.

INDUSTRY OVERVIEW

With these advantages, esports gamers are increasingly drawn to gamer-centric mobile social networking platforms to find game buddies and establish long-lasting social relationships with each other within and beyond the gaming context. Moreover, leveraging their large user base and voice-based interactive features, gamer-centric mobile social networking platforms are expanding their service offerings into a variety of non-gaming contexts and interests, such as lifestyle, entertainment, travel, among others, with a view to further enrich user experiences and increase their loyalty to the platforms. These platforms are also engaged in esports and online game distribution. Through such expansion, gamer-centric mobile social networking platforms are well-positioned to better serve their evolving user needs and take advantage of new monetization opportunities.

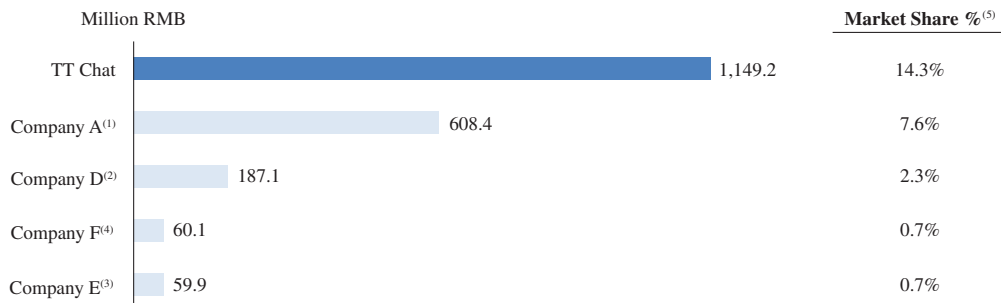
Competitive Landscape of Gamer-centric Mobile Social Platforms

We are the leading gamer-centric mobile social platform in China, as measured by monthly active users and revenues in the first half of 2021. The following chart illustrates the top five gamer-centric mobile social platforms in China in terms of monthly active users in the first half of 2021:



Source: Frost & Sullivan Report

The following chart illustrates the top five gamer-centric mobile social platforms in China in terms of revenues in the first half of 2021:



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

- (1) Company A is a mobile social platform focused on esports game coaching services.
- (2) Company D is a voice-based and gamer-centric mobile social platform owned by a US-listed company.
- (3) Company E is a mobile social platform focused on esports game coaching services.
- (4) Company F is a mobile social platform focused on gaming owned by a US-listed company.
- (5) Based on the estimated size (in terms of revenue) of China’s gamer-centric mobile social networking market for the first half of 2021.

Entry Barriers for China’s Gamer-centric Mobile Social Networking Market

- *Gamer relationship chains.* Existing relationship chains among gamers are a vital asset for gamer-centric mobile social platforms. Platforms that have established a large gamer base and strong relationships among gamers are expected to take the lead in the gamer-centric mobile social networking market. This is because new users are more attracted to such platforms to build connections and existing users are less likely to switch to other platforms.
- *Matching functions.* One of the key features of gamer-centric mobile social platforms is to help gamers find the right game buddies to elevate their gaming experience. Accurate game buddy matching requires sophisticated algorithms and engines which are continuously enhanced by leveraging a large user base and active user behavior. It is therefore difficult for new platforms to provide effective matching from scratch.
- *Social and entertainment offerings.* Given the varying social and entertainment needs of gamers, the ability to expand use cases beyond the gaming context, cover more topic categories and encourage higher-quality interactions among users is important for market players to acquire and retain users.

Global Opportunities for Chinese Mobile Social Networking Platforms

Driven by the universal need for social connections and the continued advancement in technology and product features, the global mobile social networking market has witnessed considerable growth in recent years. The global voice-based mobile social networking market is expected to record fast growth with a 23.8% CAGR from US\$21.0 billion in 2020 to US\$61.1 billion in 2025. The global gamer-centric mobile social networking market reached US\$12.8 billion in 2020, and is expected to grow at a CAGR of 23.0% to US\$36.0 billion in 2025.

Leveraging the core competence developed via local operations, a number of leading Chinese online social networking platforms are expanding into overseas markets by localizing their businesses to cater to the specific needs and preferences of overseas users in these markets, and some of them have made notable achievements. Likewise, leading Chinese voice-based mobile social networking platforms are expanding in the global mobile social

INDUSTRY OVERVIEW

networking market. With their proven business models, ability to capture untapped local opportunities in certain overseas markets, and supply of high-skilled talents, such leading platforms are well-positioned to capture the growth opportunities in overseas social networking markets across gaming and non-gaming segments and user bases.

SOURCES OF INFORMATION

In connection with the [REDACTED], we have engaged Frost & Sullivan, an independent market research consulting firm to conduct a detailed analysis and prepare an industry report on the market in China for (i) the mobile voiced-based social & interaction and (ii) the mobile game-based social network. Frost & Sullivan is an independent global consulting firm founded in the United States in 1961. It is principally engaged in the provision of market research consultancy services, conducting industry research and providing market and enterprise strategies and consultancy services across various industries. We incurred a total of USD117,648 in fees and expenses in connection with the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent on our successful [REDACTED] or on the results of the Frost & Sullivan Report. Except for the Frost & Sullivan Report, we did not commission any other industry report in connection with the [REDACTED].

We have extracted certain information from the Frost & Sullivan Report in this section and elsewhere in this document to provide a comprehensive presentation of the markets in which we operate. We believe such information facilitates an understanding of such markets for potential [REDACTED]. Our Directors confirm that, after taking reasonable care, there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on industry trends of the target research markets. Primary research involved interviewing industry insiders such as leading market players, suppliers, customers and recognized third-party industry associations. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Frost & Sullivan has independently verified the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan research may be affected by the accuracy of assumptions used and the choice of primary and secondary sources.

The Frost & Sullivan Report was compiled based on the following assumptions: that (a) the social, economic and political environment in China will remain stable during the forecast period and (b) the growth of mobile voice-based social & interaction and game-based social network markets in China remains healthy.

REGULATIONS

This section sets forth a summary of the principal PRC laws and regulations relevant to our business and operations in China.

As the online audio industry is still at an early stage of development in China, new laws and regulations may be promulgated from time to time to introduce new regulatory requirements, including but not limited to, requirements of obtaining new licenses and permits in addition to those we currently have. There are substantial uncertainties with respect to the interpretation and implementation of current and future PRC laws and regulations, including those applicable to interactive audio industries and our business. This section sets forth a summary of the most significant laws and regulations that are applicable to our current business activities in China and that affect the dividends payment to our shareholders.

REGULATIONS RELATED TO TELECOMMUNICATIONS SERVICES

According to the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》) (the “Telecommunications Regulations”) promulgated by the State Council on September 25, 2000 and last revised and came into effect on February 6, 2016, all telecommunications businesses in China have been categorized into basic telecommunications services and value-added telecommunications services. Value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures.

In addition, according to the Telecommunication Industry Classification Catalog (2015 version) (《電信業務分類目錄》(2015年版)) (the “Telecom Catalog”), which came into force on March 1, 2016 and amended on June 6, 2019 by MIIT, value-added telecommunications services are divided into two categories. Category I value-added telecommunications services include internet data center services, content delivery network services, domestic internet protocol virtual private network services and internet access services. Category II value-added telecommunications services include online data processing and transaction processing services, domestic multi-party communication services, store-and-forward-type services, call center services, information services and code and regulation conversion services. “Information services” under “Category II value-added telecommunications services” refer to the information services provided for users via the public communication network or the internet and by the information collection, development, processing and construction of information platforms. By technical service methods of information organization, transmission, and so forth, information services are classified into information release platforms and transmission services, information retrieval and inquiry services, information community platform services, instant information interaction services as well as information protection and processing services, and so forth.

REGULATIONS

According to the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) promulgated by the State Council on September 25, 2000 and last amended on January 8, 2011 and became effective on the same date, “internet information services” refer to the provision of information through the internet to online users, including “commercial internet information services” and “non-commercial internet information services.” A commercial internet information service operator must obtain an ICP License from the competent governmental authorities before engaging in commercial internet information services in China, while ICP License is not required if the operator will only provide internet information on a non-commercial basis.

The Administrative Measures for Telecommunications Business Licensing (《電信業務經營許可管理辦法》) promulgated by the MIIT on December 26, 2001 and last amended on July 3, 2017 and became effective on September 1, 2017, set forth specific provisions regarding the qualifications and application procedures for ICP licenses and the administration and supervision of such licenses. A commercial ICP service operator shall obtain an ICP License of such services from the MIIT or its provincial level counterparts prior to the commencement of such services, otherwise such operator might be subject to sanctions including corrective orders and warnings from the competent governmental authority, imposition of fines and confiscation of illegal gains and in serious cases, being included in the list of dishonest telecommunications business operators, suspension of business.

In addition to the telecommunications regulations above, mobile internet applications are especially regulated by the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》) (the “APP provisions”), which were promulgated by the Cyberspace Administration of China (the “CAC”) on June 28, 2016 and became effective on August 1, 2016. According to the Provisions, the CAC and its local offices shall be responsible for the supervision, administration and law enforcement with regard to the nationwide and local mobile Internet applications information contents. Relevant qualifications required by laws and regulations shall be acquired according to law for providing information services through the mobile Internet applications.

According to the Telecom Catalog, instant information interaction services refer to the service of instant sending and receiving of information (including texts, pictures, audio and videos), documents and so on provided for users by operating the client software, browsers and so on of the computer, intelligent terminal, and so forth, via the public communication network or the Internet. Instant information interaction services include instant messaging, interactive voice-response services (IVR) as well as end-to-end bilateral real-time voice service (including video voice services), and according to the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》), ICP service providers are prohibited from providing services beyond that included in the scope of their ICP license or filings. Due to the uncertainties of the interpretation and implementation of such regulatory requirements applicable to voice chat functions on Uki app, we may be required to update the authorized scope to include instant information exchange services.

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REGULATIONS RELATED TO MOBILE INTERNET APPLICATIONS INFORMATION SERVICES

In addition to the Telecommunications Regulations and other regulations above, mobile applications (the “APPs”), and the Internet application store (the “APP Store”), are specially regulated by the APP Provisions, and pursuant to which, the APP information service providers shall satisfy relevant qualifications required by laws and regulations, strictly carry out the information security management responsibilities and fulfill their obligations in various aspects relating to the real-name system, protection of users’ information and the examination and management of information content. The APP Store service providers shall file with the local cyberspace administration authorities within 30 days after its APP Store services have launched, and such APP Store service providers are responsible for overseeing APP providers operated on their stores.

REGULATIONS RELATED TO ONLINE TRANSMISSION OF AUDIO-VISUAL PROGRAMS

On April 13, 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry (《關於非公有資本進入文化產業的若干決定》). On July 6, 2005, five PRC regulatory agencies, namely, the Ministry of Culture, the State Administration of Radio, Film and Television, or the SARFT, the General Administration of Press and Publication, the NDRC and the Ministry of Commerce, jointly promulgated the Several Opinions on Introducing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》). According to the above-mentioned regulations, non-State-owned capital and foreign investors are prohibited to conduct the business of transmitting audio-visual programs through information network. In addition, Internet cultural business (except for music) remains a prohibited area for foreign investment on the 2020 Negative List.

According to the Administrative Provisions on Internet Audio-visual Program Service (《互聯網視聽節目服務管理規定》) (the “Audio-visual Program Provisions”), jointly promulgated by the SARFT and the Ministry of Information Industry on December 20, 2007 and last amended by the State Administration of Press, Publication, Radio, Film and Television (the “SAPPRFT”), on August 28, 2015 and became effective on the same date, Internet audio-visual program service refers to activities of making, editing and integrating audio-visual programs, providing them to the general public via Internet, and providing such services to other people by uploading. Providers of internet audio-visual program services are required to obtain a License for Online Transmission of Audio-visual Programs, or the Audio-visual License issued by the competent department of radio, film and television or complete certain record-filing procedures. Providers of internet audio-visual program services are generally required to be either state-owned or state-controlled by the PRC government, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audio-visual program service determined by the competent department of radio, film and television under the State Council. According to the Official Answers to Press Questions Regarding the Audio-visual Program Provisions (《就<互聯網視聽節目服務管理規定>答記者問》) published on the SARFT’s website on February 3, 2008, the SARFT and the Ministry of Information Industry clarified that providers of Internet audio-visual program services who had legally engaged in such services prior to the adoption of the Audio-visual Program Provisions shall be eligible to re-register their businesses and continue their operations of Internet

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audio-visual program services so long as those providers have not been in violation of the laws and regulations. This exemption will not be granted to Internet audio-visual program service providers established after the adoption of the Audio-visual Program Provisions. These policies have later been reflected in the Notice on Relevant Issues Concerning Application and Approval of Audio-visual License (《關於做好<信息網絡傳播視聽節目許可證>申報審核工作有關問題的通知》), issued by SARFT on May 21, 2008 and amended on August 28, 2015.

According to the Audio-visual Program Provisions, where an entity provides Internet audio-visual program related services without permit, it may be subject to warning, ordered to rectify, or imposed a fine of no more than RMB30,000, and so forth. If the circumstances are serious, the competent authority shall impose penalties in accordance with Article 47 of the Administrative Regulations on Broadcasting and Television (《廣播電視管理條例》) promulgated by the State Council on August 11, 1997 and last amended on November 29, 2020.

In 2008, the SARFT issued the Notice on Relevant Issues Concerning Application and Approval of License for Online Transmission of Audio-visual Programs (《關於做好<信息網絡傳播視聽節目許可證>申報審核工作有關問題的通知》), as last amended on August 28, 2015 and became effective on the same date, which further sets forth detailed provisions concerning the application and approval process regarding the Audio-visual License. The notice also stipulates that the internet audio-visual program services providers who engaged in such services prior to the promulgation of the Audio-visual Program Provisions shall also be eligible to apply for the license so long as their violation of the laws and regulations is minor and can be rectified in a timely manner and they have no records of violation during the latest three months prior to the promulgation of the Audio-visual Program Provisions.

Further, on March 30, 2009, the SARFT promulgated the Notice on Strengthening the Administration of the Content of Internet Audio-visual Programs (《關於加強互聯網視聽節目內容管理的通知》), which reiterates the requirement for the internet audio-visual programs to be published to the public through information network, where applicable, and prohibits certain types of internet audio-visual programs containing violence, pornography, gambling, terrorism, superstitious or other similarly prohibited elements.

On March 17, 2010, the SARFT issued the Internet Audio-visual Program Services Categories (Provisional) (《互聯網視聽節目服務業務分類目錄(試行)》) (the “Provisional Categories”), as amended on March 10, 2017 and became effective on the same date, which classified internet audio-visual program services into four categories. According to the Provisional Categories, the third category covers gathering of Internet audio-visual programs and forwarding of audio-visual programs uploaded by users. “Forwarding of audio-visual programs uploaded by users” under the third category refers to the provision for users of uploading channels for special programs or information so that such users can transmit their or others’ program source to the public through the information broadcasting system or viewing interface of websites for video-on-demand by the public, including: (a) program uploading, which enables users to upload programs to the server of a website for watching and listening (including downloading) by the public; (b) information uploading and distribution, which enables users to upload names, link addresses and other information of programs to the server of a website for the public’s browsing, selection or watching and listing (including downloading) after re-linked to other players.

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In addition, the Notice concerning Strengthening the Administration of the Streaming Service of Online Audio-Visual Programs (《關於加強網絡視聽節目直播服務管理有關問題的通知》) promulgated by the SAPPRFT on September 2, 2016 emphasizes that, unless a specific license is granted, audiovisual programs service provider is forbidden from engaging in live streaming on major political, military, economic, social, cultural and sports events.

On November 4, 2016, the CAC promulgated the Administrative Provisions on Internet Live-Streaming Services (《互聯網直播服務管理規定》) (the “Internet Live-Streaming Services Provisions”), which came into effect on December 1, 2016. According to the Internet Live-Streaming Services Provisions, an internet live-streaming service provider shall (a) establish a live-streaming content review platform for conducting classification and grading management according to the online live streaming content categories, user scale and others, add tags to graphics, video, audio or broadcast tag information for platforms; (b) be technically suitable for its services, and shall be technically able to block online live streaming immediately, with a technical scheme in compliance with the relevant national standards; (c) conduct verification on internet live-streaming issuers based on their identity certificates, business licenses and organization code certificates; (d) enter into a service agreement with internet live-streaming services user to specify both parties’ rights and obligations; and (e) keep a record of contents released by online live streaming services users and the log information for 60 days for lawful supervision and inspection.

According to the Notice on Implementing Provincial Investigation on Live Streaming Services for Online Audio-visual Programs issued by the Administration of Press, Publication, Radio, Film and Television of the Guangdong Province (《關於開展全省網絡視聽節目直播服務業務調查摸底的通知》) (the “Guangdong Province Letter”) on September 26, 2016, only live streaming services on either (a) major political, military, economics, social, cultural, sports activities or reality event streaming or (b) activities such as general social group cultural activities or sports events are required to apply for an Audio-Visual License. The Guangdong Province Letter further stated that live streaming of online shows, online games and online drama performances do not require an Audio-Visual License.

In March 2018, the SAPPRFT issued the Notice on Further Regulating the Transmission Order of Internet Audio-Visual Programs (《關於進一步規範網絡視聽節目傳播秩序的通知》), which requires that, among others, audio-visual platforms shall: (a) not produce or transmit programs intended to parody or denigrate classic works, (b) not re-edit, re-dub, re-caption or otherwise ridicule classic works, radio and television programs, or original internet audio-visual programs without authorization, (c) not transmit re-edited programs which unfairly distort the original content, (d) strictly monitor the adapted content uploaded by platform users and not provide transmission channels for illicit content, (e) immediately take down unauthorized content upon receipt of complaints from copyright owners, radio and television stations, or film and television production institutions, (f) strengthen the administration of movie trailers and prevent improper broadcasting of movie clips and trailers prior to authorized release, and (g) strengthen the administration of sponsorship and endorsement for internet audio-visual programs. Pursuant to this notice, the provincial branches of SAPPRFT shall have the authority to supervise radio stations and websites that offer audio-visual programs within its jurisdiction and require them to further improve their content management systems and implement relevant management requirements.

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According to the Notice on Strengthening the Administration of the Internet Live Streaming Service (《關於加強網絡直播服務管理工作的通知》) jointly promulgated by the MIIT, the Ministry of Public Security of the PRC and other government agencies on August 1, 2018, internet live streaming service providers shall go through the procedures of filing with the competent department of telecommunications. The internet live streaming service providers engaged in telecommunications business and internet news information, network performances and internet live streaming of audio-visual programs shall apply to the relevant departments for permission to operate such telecommunication business and shall perform the procedures of record-filing with the local public security department within 30 days after the live streaming service being operated.

According to the Notice on Strengthening the Administration of the Online Show Live Streaming and E-commerce Live Streaming (《關於加強網絡秀場直播和電商直播管理的通知》) promulgated by the National Radio and Television Administration on November 12, 2020, platforms providing online show live streaming or e-commerce live streaming services shall register their information and business operations by November 30, 2020. The overall ratio of front-line content analysts to live streaming rooms shall be 1:50 or higher on such platforms. The training for content analysts shall be strengthened and content analysts who have passed the training shall be registered in the system. A platform shall report the number of its live streaming rooms, streamers and content analysts to the provincial branch of the National Radio and Television Administration on a quarterly basis. Online show live streaming platforms shall tag content and streamers by category. A streamer cannot change the category of the programs offered in his or her live streaming room without prior approval from the platform. Users that are minors or without real-name registration are forbidden from virtual gifting, and platforms shall limit the maximum amount of virtual gifting per time, per day, and per month. When the virtual gifting by a user reaches half of the daily/monthly limit, a consumption reminder from the platform and a confirmation from the user by text messages or other means are required before the next transaction. When the amount of virtual gifting by a user reaches the daily/monthly limit, the platform shall suspend the virtual gifting function for such user for that day or month. To host any e-commerce promotion events such as E-commerce Festival, E-commerce Day or Promotion Day in the forms of live streaming, live performances, live variety shows and other live programs, the platforms shall register the information of guests, streamers, content and settings with the local branch of the National Radio and Television Administration 14 business days in advance. Online e-commerce live streaming platforms shall conduct relevant qualification examination and real-name authentication on businesses and individuals providing live-streaming marketing services and keep complete examination and authentication records, and shall not enable imposters or businesses or individuals without qualification or real-name registration to conduct live-streaming marketing services.

On February 9, 2021, the CAC, the NOAPIP, the MIIT, Ministry of Public Security, the Ministry of Culture and Tourism, the PRC State Administration for Market Regulation (the “SAMR”) and the National Radio and Television Administration promulgated the Guidance on Strengthening the Regulatory Management of Network Broadcast (the “Notice 3”) (《關於加強網絡直播規範管理工作的指導意見》), which requires live streaming platforms that carry out business-oriented online performance activities must hold the internet cultural business license and carry out ICP filing; the live broadcasting platform conducting online audio-visual program service should hold an Audio-visual License (or register in the National Internet

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Audio-visual Programs Registration and Management System) and carry out ICP filing; live streaming platforms that carry internet news information service must hold internet news information service license. Live streaming platforms shall file with local cyberspace administration office in a timely manner, and shall cancel its filing immediately after it ceases to provide live streaming services.

REGULATIONS RELATED TO ONLINE CULTURAL ACTIVITIES

The Ministry of Culture promulgated the Interim Provisions on Administration of Internet Culture (《互聯網文化管理暫行規定》) (the “Internet Culture Provisions”), on May 10, 2003, as most recently amended on December 15, 2017 and became effective on the same date. According to the Internet Culture Provisions, internet cultural activities include: (i) producing, reproducing, importing, publishing or broadcasting Internet cultural products; (ii) publishing cultural products on the Internet or transmission thereof to computers, fixed-line or mobile phones, radios, television sets or gaming players for the purpose of browsing, reading, reviewing, using or downloading such products by online users; and (iii) exhibitions and competitions of Internet cultural products. Internet cultural activities are categorized as two categories, namely, commercial and non-commercial. Entities engaged in commercial internet cultural activities shall file the application to the applicable provincial level counterpart of the Ministry of Culture for approval and obtain an Internet Culture Operation License.

According to the Measures for the Administration of Internet Performance Business Operations (《網絡表演經營活動管理辦法》) promulgated by the Ministry of Culture on December 2, 2016, entities engaged in internet performance business operations shall, in accordance with the Internet Culture Provisions, apply to the cultural administrative department at the provincial level for an Internet Culture Operation License, and the business scope in the license shall expressly include internet performance. An internet performance business entity shall indicate the number of its Internet Culture Operation License in an eye-catching position on the homepage of its website. In July 2016, the Ministry of Culture promulgated the Notice on Strengthening the Administration of Internet Performance (《文化部關於加強網絡表演管理工作的通知》), which regulates the behavior of entities conducting businesses related to internet performance and performers. Entities operating internet performances shall be responsible for the services and content posted on their website by performers. They must refine their content management mechanism and shut down the channel and stop the dissemination of any internet performance as soon as they realize that such internet performance is in violation of relevant laws and regulations. Internet performers shall be responsible for their performances and shall not perform any program containing violence, pornography, or other similarly prohibited elements.

On August 12, 2013, the Ministry of Culture issued the Administrative Measures for Content Self-review by Internet Culture Business Entities (文化部關於實施《網絡文化經營單位內容自審管理辦法》的通知), which requires internet culture business entities to review the content of products and services to be provided prior to providing such content and services to the public. An Internet culture business entity shall establish and improve its content management system. The content management system of an internet culture business entity is required to specify the responsibilities, standards and processes for content review as well as accountability measures, and is required to be filed with the provincial level counterpart of the Ministry of Culture.

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REGULATIONS RELATED TO PRODUCTION AND OPERATION OF RADIO AND TELEVISION PROGRAMS

On July 19, 2004, the SARFT promulgated the Regulations on the Administration of Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》) (the “Radio and TV Programs Regulations”), as last amended on October 29, 2020. Pursuant to the Radio and TV Programs Regulations, entities engaged in the production of radio and television programs shall apply for the License for Production and Operation of Radio and TV Programs from the SARFT or its provincial level counterparts and shall conduct their operations strictly in compliance with the approved scope of production and operation.

REGULATIONS RELATED TO ADVERTISING BUSINESS

On October 27, 1994, the SCNPC, promulgated the Advertising Law of the PRC (《中華人民共和國廣告法》) (the “Advertising Law”), as amended most recently on April 29, 2021. The Advertising Law requires that advertisers, advertising operators, and advertisement publishers shall abide by the laws and administrative regulations, and by the principles of fairness and good faith while engaging in advertising activities. Administrative departments for market regulation at and above the county level are in charge of supervision and administration of advertising.

On July 4, 2016, the SAMR issued the Interim Measures for the Administration of Internet Advertising (《互聯網廣告管理暫行辦法》) (the “Internet Advertising Measures”), which became effective on September 1, 2016. According to the Internet Advertising Measures, Internet Advertising refers to commercial advertising for direct or indirect marketing goods or services in the form of text, image, audio, video, or other means through websites, web pages, Internet apps, or other Internet media. The Internet Advertising Measures specifically set out the following requirements: (a) advertisements must be identifiable and marked with the word “advertisement” enabling consumers to distinguish them from non-advertisement information; (b) sponsored search results must be clearly distinguished from organic search results; (c) it is forbidden to send advertisements or advertisement links by email without the recipient’s permission or induce Internet users to click on an advertisement in a deceptive manner; and (d) Internet information service providers that do not participate in the operation of Internet advertisements should stop publishing illegal advertisements if they know or should know that the advertisements are illegal.

REGULATIONS RELATED TO ONLINE PUBLISHING

On February 4, 2016, the MIIT and the SAPPRFT jointly issued the Administrative Provisions on Online Publishing Services (《網絡出版服務管理規定》) (the “Online Publishing Provisions”), which took effect on March 10, 2016. The Online Publishing Provisions regulate a broad range of activities related to the “online publishing services” providing “online publications” to the public through information networks, including (a) original digital works, such as text, pictures, maps, games, animation and audio/video; (b) digital works with content that is identical with the formally published publications; (c) digital

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works formed by selecting, arranging or compiling other types of digital works; and (d) other types of digital works recognized by the SAPPRFT. In addition, foreign-invested enterprises are not allowed to engage in the foregoing services. Under the Online Publishing Regulations, (a) internet operators distributing online publications via internet are required to obtain an Internet Publishing Service License; (b) before publishing an online game, an online publishing service provider shall file an application with the competent provincial counterpart of the SAPPRFT in the place where it is located and the application, if approved, shall be submitted to the SAPPRFT for approval. An online game shall not be launched without the prior approval of the SAPPRFT, otherwise the competent authority may confiscate all illegal income arising therefrom and impose a fine ranging from 5 times to 10 times of such illegal income, if the illegal income is more than RMB10,000, or a fine up to RMB50,000, if the illegal income is not more than RMB10,000.

The Notice on the Administration over Mobile Game Publishing Services (《關於移動遊戲出版服務管理的通知》), which was issued by the SAPPRFT on May 24, 2016 and took effect on July 1, 2016, provides that game publishing services providers shall be responsible for examining the contents of their games and applying for game publication numbers, and for the purpose of this notice, the online game publishing services providers refer to online publishing service entities that have obtained the Online Publishing Service License with game publishing business included in their scope of business. A mobile game shall not be published without the prior approval of the SAPPRFT.

REGULATIONS RELATED TO THE PROTECTION OF MINORS IN ONLINE ENTERTAINMENT

On April 15, 2007, in order to curb addictive online game-playing by minors, eight PRC Government authorities jointly issued the Circular on Application of the Online Game Addiction Prevention System for Protecting the Physical and Mental Health of the Minors (《關於保護未成人身心健康實施網絡遊戲防沉迷系統的通知》), requiring the implementation of an anti-fatigue compliance system and a real-name registration system by all PRC online game operators. Under the anti-fatigue compliance system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be “healthy”, three to five hours is deemed “fatiguing”, and five hours or more is deemed “unhealthy”. Limits shall be set on the game value receivable according to the time of staying online. After the healthy online time, the longer the minors stay online the less proceeds are receivable until the proceeds become zero.

In July 2011, the SAPPRFT, together with several other government agencies, jointly issued the Notice on Initializing the Verification of Real-name Registration for the Anti-Fatigue System on Online Games (《關於啟動網絡遊戲防沉迷實名驗證工作的通知》) (the “Real-name Registration Notice”), in order to strengthen the implementation of the anti-fatigue and real-name registration system. This notice indicates that the National Citizen Identity Information Center of the Ministry of Public Security will verify identity information of game players submitted by online game operators. The Real-name Registration Notice also imposes stringent penalties on online game operators that do not implement the required anti-fatigue

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and real-name registration systems properly and effectively, including terminating their online game operations. According to the Provisions on the Administration of Programs for Minors (《未成年人節目管理規定》) issued by the National Radio and Television Administration, which came in effect on April 30, 2019, online audio-visual program service providers and program producers shall produce and disseminate differentiated programs for minors based on the physical and mental development status of the minors at different ages, and there should be images or sounds that prompt such differentiation.

On July 25, 2014, SAPPRFT issued the Notice on the In-depth Implementation of Real-name Verification for Anti-addiction in Online Games (《國家新聞出版廣電總局辦公廳關於深入開展網絡遊戲防沉迷實名驗證工作的通知》), which became effective on October 1, 2014, requiring online game operating companies to complete the online game anti-addiction real-name verification procedures, and provide certification documents issued by the National Citizen ID Number Inquiry Service Center; otherwise the application for online game publishing will not be accepted. The notice also stipulates that, due to the limitations of hardware and technology, the implementation of the anti-addiction system for online games is temporarily not applicable to mobile online games.

On October 25, 2019, the National Press and Publication Administration (the “NPPA”) issued the Notice on Preventing Minors from Indulging in Online Games (《國家新聞出版署關於防止未成年人沉迷網絡遊戲的通知》), which took effect on November 1, 2019. The notice stipulates several requirements on the online game operation, including but not limited to: (i) all online game users shall register their game accounts with valid identity information; (ii) the time slot and duration for playing online games by minors shall be strictly controlled; (iii) the provision of paid services to minors shall be regulated; (iv) the regulation of the industry shall be enhanced and the requirements above shall be requisite for launching, publishing and operating online games; and (v) the development and implementation of an age-appropriate reminding system shall be explored. Online game companies shall analyze the cause of minors’ addiction to games, and alter the content and features of games or game rules resulting in such addiction.

On October 17, 2020, the SCNPC revised and promulgated the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》), which will take effect on June 1, 2021. The Law of the PRC on the Protection of Minors (2020 Revision) added a new section entitled “Online Protections” which stipulates a series of provisions to further protect minors’ interests on the internet, among others, (i) online product and service providers are prohibited from providing minors with products and services that would induce minors to indulge, (ii) online service providers for products and services such as online games, live streaming, audio-visual, and social networking are required to establish special management systems of user duration, access authority and consumption for minors, (iii) online games service providers must request minors to register and log into online games with their valid identity information, (iv) online games service providers must categorize games according to relevant rules and standards, notify users about the appropriate ages for the players of the games, and take technical measures to keep minors from accessing inappropriate online games functions, and (v) online games service providers may not provide online games services to minors from 10:00 P.M. to 8:00 A.M. the next day.

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The Notice 3, provides that hosts shall not accept virtual gifting from minors without consent from their parents or other guardians, and the platform shall prohibit minors from virtual gifting and shall establish an exclusive customer service team to timely disposal of complaints and disputes involving minors. In addition, pursuant to the Notice of on Further Strengthening Regulation to Effectively Prevent Online Gaming Additions among Minors (《關於進一步嚴格管理切實防止未成年人沉迷網絡遊戲的通知》), the NPPA limit online gaming time for minors to an hour per day from 8 p.m. to 9 p.m. on Friday, Saturday, Sunday and legal holidays in the PRC starting from September 1, 2021 and all online games are required to be connected to the online game anti-fatigue compliance system and a real-name registration system of the NPPA.

REGULATIONS RELATED TO INTERNET INFORMATION SECURITY AND PRIVACY PROTECTION

Internet content in China is also regulated and restricted from a state security point of view. The Decision Regarding the Safeguarding of Internet Security (《關於維護互聯網安全的決定》), enacted by the SCNPC on December 28, 2000, and amended with immediate effect on August 27, 2009, makes it unlawful to, including but not limited to: (i) gain improper entry into a computer information system of national affairs, national defense or cutting-edge science and technology; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights.

The Administrative Measures for the Security Protection of International Connections to Computer Information Network (《計算機信息網絡國際聯網安全保護管理辦法》), issued by the Ministry of Public Security on December 16, 1997, and amended on January 8, 2011, prohibits the use of the internet in ways that, among other things, result in a leakage of state secrets or the distribution of socially destabilizing content.

Pursuant to the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》) promulgated by the MIIT on December 29, 2011, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of the users, unless otherwise stipulated by laws and administrative regulations. The internet information service provider must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. The internet information service provider is also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority and cooperate with relevant departments in investigation and solution.

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In addition, pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》) issued by the SCNPC on December 28, 2012 and the Provisions on Protecting the Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT on July 16, 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying any such information, or selling or illegally providing such information to other parties. An internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. Internet information service providers are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to others.

On November 7, 2016, the SCNPC promulgated the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》) (the “Cybersecurity Law”), effective on June 1, 2017. The Cybersecurity Law aims to maintain the network security, safeguard the cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and requires that a network operator, which includes, among others, internet information services providers, take technical measures and other necessary measures in accordance with the provisions of applicable laws and regulations as well as the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of the networks.

The Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), promulgated by the Ministry of Public Security on December 13, 2005, and became effective on March 1, 2006, require internet service providers to keep records of certain information about their users (including but not limited to user registration information, log-in and log-out times, IP addresses, content and time of posts by users) for at least 60 days.

On July 16, 2013, the MIIT issued the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息的保護規定》), which came into force on September 1, 2013. Most requirements under the order that are relevant to internet content provision operators are consistent with pre-existing requirements but the requirements under the order are often more stringent and have a wider scope. If an internet content provision operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from its users whose information is being collected or used. Internet content provision operators are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties.

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On August 22, 2019, the CAC issued the Regulation on Cyber Protection of Children’s Personal Information (《兒童個人信息網絡保護規定》), effective on October 1, 2019. Network operators are required to establish special policies and user agreements to protect children’s personal information, and to appoint special personnel in charge of protecting children’s personal information. Network operators who collect, use, transfer or disclose personal information of children are required to, in a prominent and clear way, notify and obtain consent from children’s guardians.

On November 28, 2019, the Secretary Bureau of the CAC, the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the SAMR promulgated the Identification Method of Illegal Collection and Use of Personal Information Through App (《App違法違規收集使用個人信息行為認定方法》), which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and for other participants to voluntarily monitor compliance.

According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》), which took effect on June 1, 2021, information processors must follow the principles of legality, legitimacy and necessity when processing personal information of minors via internet, and must obtain consent from minors’ parents or other guardians when processing personal information of minors under the age of 14. In addition, internet service providers must promptly alert upon the discovery of publishing private information by minors via the internet and take necessary protective measures.

On June 10, 2021, the SCNPC promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021. The PRC Data Security Law imposes data security and privacy obligations on entities and individuals carrying out data activities, and introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The PRC Data Security Law also provides for a national security review procedure for data activities that may affect national security and imposes export restrictions on certain data and information.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), which called for the enhanced cross-border regulatory cooperation and administration and supervision of overseas-listed China-based companies, and the laws and regulations regarding data security, cross-border data flow and management of confidential information are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process.

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On July 10 2021, the CAC and other related authorities released the draft amendment to the Cybersecurity Review Measures, or the Draft Measures (《網絡安全審查辦法(修訂草案徵求意見稿)》) for public comments through July 25, 2021. The Draft Measures proposes the following key changes: (i) companies who are engaged in data processing are also subject to the regulatory scope; (ii) the CSRC is included as one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review working mechanism; (iii) the operators, including both operators of critical information infrastructure and relevant parties who are engaged in data processing holding personal information of more than one million users, seeking a listing outside China shall file for cybersecurity review with the Cybersecurity Review Office; and (iv) the risks of core data, material data or large amounts of personal information being stolen, leaked, destroyed, damaged, illegally used or transmitted to overseas parties and the risks of critical information infrastructure, core data, material data or large amounts of personal information being influenced, controlled or used maliciously shall be collectively taken into consideration during the cybersecurity review process.

On August 17, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》), which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, a critical information infrastructure refers to an important network facilities or information systems in important industries or fields such as public communication and information service, energy, communications, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people’s livelihood and public interest in case of damage, function loss or data leakage. In addition, competent departments and administration departments of each important industry and field, or Protection Departments, shall be responsible to formulate determination rules and determine the critical information infrastructure operator in the respective important industry or field. The result of the determination of critical information infrastructure operator shall be informed to the operator, and notify the public security department of the State Council.

On August 20, 2021, the SCNPC promulgated the Law of Personal Information Protection of PRC, or the Personal Information Protection Law (《中華人民共和國個人信息保護法》), which will become effective on November 1, 2021. The Personal Information Protection Law specifically specified the rules for handling sensitive personal information, which means personal information that, once leaked or illegally used, may easily cause harm to the dignity of natural persons or grave harm to personal or property security, including information on biometric characteristics, financial accounts, individual location tracking, etc., as well as the personal information of minors under the age of 14. Personal information handlers shall bear responsibility for their personal information handling activities, and adopt the necessary measures to safeguard the security of the personal information they handle. Otherwise, the personal information handlers will be ordered to correct or suspend or terminate the provision of services, confiscation of illegal income, fines or other penalties.

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According to the Ninth Amendment to the Criminal Law of the PRC (《中華人民共和國刑法修正案(九)》) issued by the SCNPC on August 29, 2015, effective on November 1, 2015, any internet service provider that fails to fulfill the obligations related to internet information security as required by applicable laws and refuses to take corrective measures, will be subject to criminal liability for (i) any large-scale dissemination of illegal information; (ii) any severe effect due to the leakage of users’ personal information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (a) sells or provides personal information to others unlawfully or (b) steals or illegally obtains any personal information will be subject to criminal liability in severe situations. Pursuant to Interpretation of Supreme People’s Court and Supreme People’s Procuratorate on Several Issues regarding Application of Law in Handling of Criminal Cases Involving Infringement of Personal Information (《關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋》), effective on June 1, 2017, “Personal Information” and certain standards for the conviction and sentencing of the criminals in relation to personal information infringement has been clarified. In addition, the Civil Code of the People’s Republic of China (《中華人民共和國民法典》) (the “Civil Code”), which issued on May 28, 2020 and came into effect on 1 January 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law, any organization or individual shall legally obtain personal information of others when necessary and ensure the safety of such information, and shall not unlawfully collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

REGULATIONS RELATED TO VIRTUAL CURRENCY

On January 25, 2007, the Ministry of Public Security, the Ministry of Culture, the MIIT and the General Administration of Press and Publication jointly issued a circular regarding regulating online game operation and banning gambling in online games (《關於規範網絡遊戲經營秩序查禁利用網絡遊戲賭博的通知》) which has implications on the issuance and use of virtual currency. On February 15, 2007, fourteen PRC regulatory authorities jointly issued the Notice on Further Strengthening Administration of Internet Cafes and Online Games (《關於進一步加強網吧及網絡遊戲管理工作的通知》). According to these regulations, aggregate amount of virtual currency that can be issued by online game operators and the amount of virtual currency that can be purchased by an individual are limited, virtual currency issued by online game operators can only be used for purchasing virtual products and services within the online games and not for purchasing tangible or physical products and trading of virtual currency is strictly banned.

On June 4, 2009, the Ministry of Culture and the Ministry of Commerce jointly issued the Notice on Strengthening the Administration of Online Game Virtual Currency (《關於加強網絡遊戲虛擬貨幣管理工作的通知》) (the “Virtual Currency Notice”). The Virtual Currency Notice requires that the operators who engage in issuance of online game virtual currency or offering of online game virtual currency transaction services shall apply for approval from the Ministry of Culture through its provincial branches. Operators that issue virtual currency for online games are prohibited from offering services for virtual currency trading. Any company that fails to file the necessary application will be subject to sanctions, including but not limited to mandatory corrective actions and fines.

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According to the Provisions of Functions, Structure and Staffing of the Ministry of Culture and Tourism (《文化和旅遊部職能配置、內設機構和人員編制規定》) issued by the General Office of the CPC Central Committee and the General Office of the State Council and became effective on July 30, 2018, the Ministry of Culture and Tourism will no longer assume the management responsibilities of the online game industry. However, it remains unclear whether further rules or policies regarding the application for virtual currency for online games will be issued. Given the uncertainty in the further regulatory requirements, we may be required to obtain additional approvals or licenses to continue our current business model.

REGULATIONS RELATED TO COMMERCIAL PERFORMANCES

The Administrative Regulations on Commercial Performances (Revised in 2020) (《營業性演出管理條例(2020修正)》) was promulgated by the State Council and took effect on February 6, 2016 and amended on November 29, 2020. According to these regulations, to legally engage in commercial performances, a culture and arts performance group shall have full-time performers and equipment in line with its performing business, and file an application with the culture administrative department of the people’s government at the county level for approval; while a performance brokerage agency shall have three or more full-time performance brokers and funds suitable for the relevant business, and file an application with the culture administrative department at the provincial level. The culture administrative department shall make a decision within 20 days from the receipt of the application whether to approve the application, and upon approval, will issue a commercial performance license. Anyone or any entity engaging in commercial performance activities without approval may have a penalty imposed, in addition to being ordered to cease its actions. Such penalty may include confiscation of performance equipment and illegal proceeds, and a fine of 8 to 10 times the illegal proceeds. Where there are no illegal proceeds or the illegal proceeds are less than RMB10,000, a fine of RMB50,000 to RMB100,000 will be imposed.

REGULATIONS RELATED TO INTELLECTUAL PROPERTY RIGHTS

Software Registration

The State Council and the NCA have promulgated various rules and regulations relating to protection of software in China. According to these rules and regulations, software owners, licensees and transferees may register their rights in software with the Copyright Protection Center of China or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may be entitled to better protections.

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The Computer Software Copyright Registration Measures (《計算機軟件著作權登記辦法》) (the “Software Copyright Measures”), issued by the NCA on 20 February 2002, set forth registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. According to Regulations on the Protection of Computer Software (2013 Revision) (《計算機軟件保護條例(2013修訂)》), Chinese citizen, legal person or other organization is entitled to the copyright of the software he/she has developed, whether the software is released publicly or not. A foreigner or a stateless person who releases his/her software first within the Chinese territory is entitled to its copyright under these Regulations. These Regulations protect a foreigner or stateless person’s entitlement to software copyright gained in accordance with an agreement signed between China and the home country or the country of habitual residence of the developer, or an international treaty to which China is a signatory.

Copyright

The Copyright Law of the People’s Republic of China (《中華人民共和國著作權法》) (the “Copyright Law”), promulgated in 1990 and amended in 2001, 2010 and 2020 (the current effective revision became effective on June 1, 2021), and its related implementation regulations (《中華人民共和國著作權法實施條例》), promulgated in 2002 and amended in 2013, are the principal laws and regulations governing the copyright related matters. According to the The Copyright Law and relevant regulations, Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works. The amended Copyright Law covers internet activities, products disseminated over the internet and software products, among the subjects entitled to copyright protections. Registration of copyright is voluntary, and it is administrated by the China Copyright Protection Center.

To further clarify some key internet copyright issues, on December 29, 2020, the PRC Supreme People’s Court promulgated the Regulation on Several Issues Concerning Applicable Laws on Trial of Civil Disputes over the Infringement of Information Network Transmission Right (2020 revised) (《關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定(2020修訂)》) (the “2020 Regulation”). The 2020 Regulation took effect on January 1, 2021, and replaced the Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes over Internet Copyright (《最高人民法院關於審理涉及計算機網絡著作權糾紛案件適用法律若干問題的解釋》) that was initially adopted in 2000 and subsequently amended in 2004 and 2006. Under the 2020 Regulation, where an internet information service provider work in cooperation with others to jointly provide works, performances, audio and video products of which the right holders have information network transmission right, such behavior will constitute joint infringement of third parties’ information network transmission right, and the PRC court shall order such internet information service provider to assume join liability for such infringement.

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According to the Regulations on Protection of Information Network Transmission Right (《信息網絡傳播權保護條例》), as promulgated on May 18, 2006 by the State Council and amended on January 30, 2013 and took effective as of March 1, 2013, an internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content, or, although not aware of the infringement, the internet information service provider fails to take such measures upon receipt of the copyright holder's notice of infringement. The internet information service provider may be exempted from indemnification liabilities under the following circumstances:

- (i) any internet information service provider that provides automatic internet access service upon instructions from its users or provides automatic transmission service for works, performances and audio/visual products provided by its users is not required to assume indemnification liabilities if (a) it has not chosen or altered the transmitted works, performance and audio/visual products and (b) it provides such works, performances and audio/visual products to the designated users and prevents any person other than such designated users from obtaining access;
- (ii) any internet information service provider that, for the sake of improving network transmission efficiency, automatically stores and provides to its own users the relevant works, performances and audio/visual products obtained from any other internet information service providers, is not required to assume the indemnification liabilities if (a) it has not altered any of the works, performances or audio/visual products that are automatically stored; (b) it has not affected such original internet information service provider in holding the information about where the users obtain the relevant works performances and audio/visual products; and (c) when the original internet information service provider revises, deletes or shields the works, performances and audio/visual products, it will automatically revise, delete or shield the same;
- (iii) any internet information service provider that provides its users with information memory space for such users to provide the works, performances and audio/visual products to the general public via an informational network is not required to assume the indemnification liabilities if (a) it clearly indicates that the information memory space is provided to the users and publicizes its own name, contact person and web address; (b) it has not altered the works, performances and audio/visual products that are provided by the users; (c) it is not aware of or has no justified reason to know that the works, performances and audio/visual products provided by the users infringe upon the copyrights of others; (d) it has not directly derived any economic benefit from the providing of the works, performances and audio/visual products by its users; and (e) after receiving a notice from the copyright holder, it promptly deletes the allegedly infringing works, performances and audio/visual products pursuant to the regulation; and

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- (iv) an internet information service provider that provides its users with search engine or link services should not be required to assume the indemnification liabilities if, after receiving a notice from the copyright holder, it disconnects the link to the allegedly infringing works, performances and audio/visual products pursuant to the regulation, unless it is aware of or should reasonably have known the infringement.

To address the problem of copyright infringement related to content posted or transmitted on the internet, the PRC National Copyright Administration and MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet (《互聯網著作權行政保護辦法》) on April 29, 2005. These measures, which became effective on May 30, 2005, apply to acts of automatically providing services such as uploading, storing, linking or searching works, audio or video products, or other contents through the internet based on the instructions of internet users who publish contents on the internet, or the Internet Content Providers, without editing, amending or selecting any stored or transmitted content. When imposing administrative penalties upon the act which infringes upon any users' right of communication through information networks, the Measures for Imposing Copyright Administrative Penalties (《著作權行政處罰實施辦法》), promulgated in 2009, shall be applied.

According to the Administrative Protection of Copyright Related to Internet, where a copyright holder finds that certain internet content infringes upon its copyright and sends a notice to the relevant internet information service operator, the relevant internet information service operator is required to (i) immediately take measures to remove the relevant contents, and (ii) retain all infringement notices for six months and to record the content, display time and IP addresses or the domain names related to the infringement for 60 days. If the content is removed by an internet information service operator according to the notice of a copyright holder, the content provider may deliver a counter-notice to both the internet information service operator and the copyright holder, stating that the removed content does not infringe upon the copyright of other parties. After the delivery of such counter-notice, the internet information service operator may immediately reinstate the removed contents and shall not bear administrative legal liability for such reinstatement. Where an internet information service operator fully aware of an internet content provider's act is infringing upon another's copyright through internet, or fails to take actions to remove relevant contents after receipt of the copyright owner's notice, and meanwhile damages public benefits, the infringer shall be ordered to stop the tortious act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) promulgated by the SCNPC on August 23, 1982 and last revised on April 23, 2019 and came into effect on November 1, 2019, and the Implementation Rules of PRC Trademark Law (《中華人民共和國商標法實施條例》) promulgated on August 3, 2002 and last amended on April 29, 2014 by the State Council and became effective on May 1, 2014, a registered trademark means a trademark that has been approved by and registered with the trademark office, including goods marks,

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service marks, collective marks and certification marks. A registered trademark is valid for 10 years commencing on the date of registration approval and can be renewed within 12 months before its expiration. For a registered trademark licensing, licensor should file the licensing of the licensed trademark with the trademark bureau, and the trademark bureau shall announce the licensing, non-filing of the licensing of a trademark shall not be contested against a good faith third party. The following acts shall constitute infringement of the exclusive right to use a registered trademark: (i) using a trademark that is identical to a registered trademark of the same type of commodities without a license from the registrant of that trademark; (ii) using a trademark similar to a registered trademark of the same type of commodities without a license from the trademark registrant, or using of a trademark identical or similar to the registered trademark on similar commodities which easily causes confusion; (iii) selling commodities that infringe upon the exclusive right to use a registered trademark; (iv) forging or manufacturing without authorization the marks of a registered trademark, or selling marks of a registered trademark that are forged or manufactured without authorization; (v) changing another party’s registered trademark and putting the commodities with the changed trademark into the market without the consent of the holder of that trademark; or (vi) intentionally providing facilitation for infringement upon others’ right to exclusively use a registered trademark or aiding others in committing infringement upon the right to exclusively use a registered trademark; or (vii) other conduct that would hinder another party’s exclusive right to use its registered trademark.

In addition, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. A trademark registration application may not prejudice the prior right obtained by others, nor may any person register in advance a trademark that has already been used and already gained a “sufficient level of reputation” through such party’s use.

Patent

The National People’s Congress adopted the Patent Law of the People’s Republic of China (《中華人民共和國專利法》) in 1984 and amended it in 1992, 2000, 2008 and 2020 (the current revision became effective on June 1, 2021). A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention, a ten-year term invention for a utility model and fifteen-year term invention for design, starting from the application date. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder, and shall be held liable for compensation to the patent holder and imposition a fine, or even subject to criminal liabilities.

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According to the PRC Patent Law, if the Patent Office finds the application of an invention conforms to the legal requirements after its preliminary examination of such application documents, it shall publish the application promptly within 18 full months after the filing date. According to the Guidelines of Patent Examination (《專利審查指南》) that took effect on July 1, 2006, as amended in 2010, 2013, 2014, 2017, 2019 and 2020 the examination of patent shall include the preliminary examination, the substantive examination, examination of international applications entering the national phase and review. However, the above-mentioned regulations do not explicitly state how long it takes for a patent application to be approved or denied. In practice, it generally may take up to one year for the Patent Office to review and approve or deny applications of patents in the category of utility model or design and two to five years in the category of invention.

Domain Name

In June 2019, the China Internet Network Information Center (中國互聯網絡信息中心) (the “CNNIC”) issued the Implementation Rules for Registration of National First Tier Domain Names (《國家頂級域名註冊實施細則》), which became effective on June 18, 2019. On August 24, 2017, the MIIT promulgated the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) (the “Domain Name Measures”). The Domain Name Measures regulate the registration of domain names, such as the first-tier domain name “.cn.” In addition, the Domain Name Measures state that the MIIT shall supervise the domain names services nationwide and publicize PRC’s domain name system. On November 27, 2017, the Ministry of Industry & Information Technology issued the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》) which has come into force on January 1, 2018. Internet access service providers shall verify the real identity information about the domain name registrant through the Recordation System and shall verify the status of domain names used by Internet information service providers through the Recordation System on a regular basis. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any shareholder of the entity), or the entity’s principal or senior manager.

Internet Infringement

Under the Civil Code, an internet user or an internet service provider that infringes upon the civil rights or interests of others through using the internet assumes tort liability. If an internet user infringes upon the civil rights or interests of another through using the internet, the person being infringed upon has the right to notify and request the internet service provider whose internet services are facilitating the infringement to take necessary measures including the deletion, blocking or disconnection of an internet link. If, after being notified, the internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any additional harm caused by its failure to act.

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REGULATIONS RELATED TO FOREIGN INVESTMENT

Foreign Investment Law

On March 15, 2019, the Second Session of the 13th National People’s Congress adopted the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》), which came into effect as of January 1, 2020. Upon its enactment, the PRC Foreign Investment Law replaced the trio of original laws regulating foreign investment in China, namely, the Wholly Foreign-owned Enterprise Law (《外資企業法》), the Sino-foreign Cooperative Joint Venture Law of the PRC (《中外合作經營企業法》) and the Sino-foreign Equity Joint Venture Law of the PRC (《中外合資經營企業法》), together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize 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. According to the Foreign Investment Law, “foreign-invested enterprises” refers to enterprises that are wholly or partly invested by foreign investors and registered under the PRC law within China, and “foreign investment” refers to any foreign investor’s direct or indirect investment activities in China, including: (i) establishing foreign-invested enterprises in China either individually or jointly with other investors; (ii) obtaining stock shares, equity shares, shares in properties or other similar interests of Chinese domestic enterprises; (iii) investing in new projects in China either individually or jointly with other investors; and (iv) investing through other methods provided by laws.

According to the Foreign Investment Law, foreign investment shall enjoy pre-entry national treatment, except for those industries listed to be either “restricted” or “prohibited” in the Negative List. The foreign investors shall not invest in the “prohibited” industries and shall meet certain requirements as stipulated under the Negative List for investing in “restricted” industries.

The Implementing Regulation of the Foreign Investment Law (《外商投資法實施條例》) was promulgated by the State Council on December 26, 2019, which took effect on January 1, 2020, replaced the Implementing Rules of the Sino-foreign Equity Joint Ventures Enterprises Law of the PRC (《中華人民共和國中外合資經營企業法實施條例》), the Implementing Rules of the Sino-foreign Co-operative Enterprises Law of the PRC (《中華人民共和國中外合作企業法實施細則》) and the Implementing Rules of the Wholly Foreign-invested Enterprise Law of the PRC (《中華人民共和國外商投資法實施條例》). According to the Implementing Regulation of the Foreign Investment Law, the Foreign Investment Law and its implementing regulation shall prevail in the event of discrepancy between the Foreign Investment Law and its implementing regulation and the relevant provisions on foreign investment promulgated prior to January 1, 2020. In addition, enterprises established prior to the effective date of the Foreign Investment Law shall adjust its legal form or governance structure to comply with the provisions of the Company Law (《中華人民共和國公司法》) or the Partnership Enterprises Law of the PRC (《中華人民共和國合夥企業法》), as applicable, and complete amendment registration before January 1, 2025. The Implementing Regulation of the Foreign Investment Law also set forth that foreign investors who invest in sectors on the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “2020 Negative List” or “Negative List”), in which foreign investment is restricted shall comply with special management measures with respect to, among others, shareholding and senior management personnel qualification in the Negative List.

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The Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》) was promulgated by the Ministry of Commerce and the SAMR December 30, 2019, which took effect on January 1, 2020 and has repealed the Interim Measures for the Administration of Record-filing on the Establishment and Changes in Foreign-Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法(2018年修訂)》). Foreign investors or foreign-invested enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System.

Rules on Security Review of Foreign Investment (《外商投資安全審查辦法》) (the “Security Review Rules”), was promulgated by the NDRC and the Ministry of Commerce on December 19, 2020 and took effective on January 18, 2021. The Security Review Rules has set forth provisions concerning the security review mechanism on foreign investment, including the investments subject to review, review scopes and procedures. When deciding whether a (i) newly establishment of a foreign-invested enterprise; (ii) specific merger or acquisition of a domestic enterprise by foreign investors or (iii) a foreign investment in other form is subject to a security review by the Security Review Authority, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements of offshore transaction. Factors that the Security Review Authority considers in its review include whether an important industry is involved and whether such foreign investment involves national security. If a business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company.

Investments in the PRC by foreign investors and foreign-invested enterprises were regulated by the Catalog of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》), repealed by the Negative List, which was promulgated by the NDRC and the Ministry of Commerce on June 23, 2020 and became effective on July 23, 2020, and the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》) (the “2020 Encouraging Catalog”), which was promulgated by the NDRC and the Ministry of Commerce on December 27, 2020 and became effective on January 30, 2021. Pursuant to the 2020 Encouraging Catalog and the 2020 Negative List, foreign-invested projects are categorized as encouraged, restricted and prohibited. Foreign-invested projects that are not listed in the Negative list are permitted foreign-invested projects.

Foreign Investment in Value-Added Telecommunication Business

According to the 2020 Negative List, the proportion of foreign investments in an entity engages in value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding and call centers) shall not exceed 50%.

REGULATIONS

According to the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “FITE Regulations”), promulgated by the State Council on December 11, 2001 and last amended on February 6, 2016, and became effective on February 6, 2016, which set forth detailed requirements including capitalization, investor qualifications and application procedures concerning the establishment of a foreign-invested telecommunications enterprise. Pursuant to the FITE Regulations, foreign investors are prohibited from holding more than 50% of equity interest in a foreign-invested enterprise that provides value-added telecommunications services. Besides, such foreign major investors of a foreign-invested telecom enterprise are required to have good performances and operation experiences in operating the value-added telecommunication businesses.

On July 13, 2006, the Ministry of Information Industry of the PRC (the predecessor of the MIIT), issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (《信息產業部關於加強外商投資經營增值電信業務管理的通知》) (the “Ministry of Information Industry Circular”), which provides that (a) foreign investors can only operate telecommunications business in China through telecommunications enterprises with valid telecommunications business operation license; (b) domestic licensees may not rent, transfer or sell telecommunications business licenses to foreign investors in any form or provide any foreign investors with resources, venues or facilities to promote unlicensed operations of telecommunications businesses in China; (c) value-added telecommunications service providers or their shareholders must directly own the domain names and registered trademarks that are used in their daily operations; (d) each value-added telecommunications service provider must have necessary facilities for its approved business operations and maintain such facilities in the geographic regions specified in its license; and (e) all value-added telecommunications service providers should improve their network and information security, establish relevant information safety system and set up emergency plans to ensure network and information safety.

REGULATIONS RELATED TO FOREIGN EXCHANGE

According to the Regulation of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), issued by the State Council on January 29, 1996 and last revised on August 5, 2008, the foreign exchange income and expenditure and foreign exchange business operations of Chinese institutions and individuals, as well as the foreign exchange income and expenditure and foreign exchange business operations conducted within the territory of the PRC by overseas institutions and individuals, shall be subject to foreign exchange administration. Renminbi is freely convertible for payments of current account items such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital expenditure items such as direct investment, loans or investments in securities outside of the PRC unless the approval from the State Administration of Foreign Exchange, or the SAFE, or its local counterpart is obtained in advance.

REGULATIONS

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), which was issued by the SAFE on February 15, 2012, employees, directors, supervisors, and other senior management who participate in any stock incentive plan of an publicly-listed overseas company and who are PRC citizens or non-PRC citizens residing in China for a continuous period of no less than one year, subject to a few exceptions, are required to register with SAFE or its local branches through a qualified domestic agent, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures with respect to the stock incentive plan.

On July 4, 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular 37”), which replaced the former circular commonly known as “SAFE Circular 75” promulgated by SAFE on October 21, 2005. The SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” Pursuant to the SAFE Circular 37, “control” refers to the act through which a PRC resident obtains the right to carry out business operation of, to gain proceeds from or to make decisions on a special purpose vehicle by means of, among others, shareholding entrustment arrangement. The SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as change of shareholders of the special purpose vehicle, increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

On March 30, 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “SAFE Circular 19”), which took effect on June 1, 2015 and amended in 2016 and 2019, in replacement of former regulations. Under the SAFE Circular 19, a foreign-invested enterprise, within the scope of business, may also choose to convert its registered capital from foreign currency to RMB on a discretionary basis, and the RMB capital so converted can be used for equity investments within PRC, which will be regarded as the reinvestment of foreign-invested enterprise.

REGULATIONS

According to the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated on February 13, 2015 and became effective on June 1, 2015, the foreign exchange administration policies for direct investment are further simplified. This includes: (a) canceling the two administrative approvals, namely the foreign exchange registration approvals under domestic and overseas direct investments, which shall be verified directly by banks instead; (b) simplifying the management of registration and confirmation of capital contribution by foreign investors under domestic direct investment; and (c) canceling the annual foreign exchange inspection of direct investments.

In addition, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or the Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in the Circular 19, but changes the prohibition against using Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties.

REGULATIONS RELATED TO TAX

Enterprise Income Tax Law

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), which was issued by the National People’s Congress on March 16, 2007 and last revised by the SCNPC on December 29, 2018, and the Regulation on the Implementation of the Enterprise Income Tax Law (《企業所得稅法實施條例》) (the “Enterprise Income Tax Regulation”), issued by the State Council on December 6, 2007 and became effective on January 1, 2008 and recently amended on April 23, 2019 and became effective on the same date, both domestic and foreign-invested enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located in the PRC are considered resident enterprises, and will generally be subject to the Enterprise Income Tax Law at the rate of 25% of their global income. The defined “de facto management bodies” are “establishments that carry out substantial and overall management and control over production and operations, personnel, accounting, and properties” of the enterprise. If an enterprise is considered a PRC resident enterprise under the above definition, its global income will be subject to enterprise income tax at the rate of 25%. The Notice on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) issued by the State Administration of Taxation (the “SAT”), on April 22, 2009 and effective on January 1, 2008 and partly amended on December 29, 2017 and became effective on the same date, sets up a more specific definition of “de facto management bodies” standard.

REGULATIONS

Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) promulgated by the Ministry of Science and Technology, the MOF and the SAT on April 14, 2008 and last revised on January 29, 2016 and came into effect on January 1, 2016, the certificate of a high and new technology enterprise is valid for three years. The Administrative Measures for the Recognition of High and New Technology Enterprises and the Enterprise Income Tax Law regulate the sort of enterprises that are eligible for the tax reduction. An enterprise shall satisfy the following requirements in order to be determined as a high and new technology enterprise: (i) the enterprise shall be registered for more than one year when applying for identification; (ii) the enterprise has already owned the intellectual property which plays a critical role in their main products (services) through independent research, assignee, accepting donation, mergers and acquisitions; (iii) its main products (services) which play a key role have fallen within the range prescribed in the High and New Technology Areas Entitled to the Key Support of the State; (iv) it has the total number of scientific and technological personnel in its employment that accounts for at least 10 percent of the total number of its employees during the current year; (v) the percentage of total research and development expenses of the enterprise for the last three fiscal years in total sales income for the same period meets the relevant requirements; (vi) the revenue from high and new technology products (services) accounts for at least 60 percent of the total revenue of the enterprise during the current year; (vii) no major product safety, quality accidents or serious environmental violations have occurred within one year of the application; and (viii) the innovation capability evaluation of the enterprise shall meet the corresponding requirements.

Value Added Tax

According to the Interim Regulation of the PRC on Value Added Tax (《中華人民共和國增值稅暫行條例》) (the “VAT”), issued by the State Council on December 13, 1993 and last revised on November 19, 2017, and the Detailed Rules for the Implementation of the Interim Regulation of the PRC on Value Added Tax (《中華人民共和國增值稅暫行條例實施細則》) issued by the Ministry of Finance (the “MOF”), on December 25, 1993 and last revised on October 28, 2011, entities and individuals selling goods in the PRC or providing processing services, repair services and importation services should be subject to VAT, and the payable tax amount shall be calculated by deducting input tax for the current period from output tax for the current period.

According to the Notice of Taxation on Implementing the Pilot Program of Replacing Business Tax with VAT in an All-round Manner (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) issued jointly by the MOF and SAT on March 23, 2016 and partly amended by the MOF, SAT and the General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, the countrywide pilot practice of levying VAT in lieu of business tax (the “Pilot Practice”), has been carried out since May 1, 2016. According to the specific regulatory documents for the Pilot Practice, including the Implementation Measures for the Pilot Practice of Levying VAT in lieu of Business Tax (《營業稅改徵增值稅試點實施辦法》), the VAT rates vary from 17%, 11%, 6%, 3% to 0% for taxpayers incurring taxable activities. According to the Notice of the MOF and SAT on Adjusting the Value-added Tax Rate (《財政部、國家稅務總局關於調整增值稅稅率的通知》) effective on May 1, 2018, the VAT tax rates on sales, imported goods that were previously subject to 17% and 11% are now adjusted to 16% and 10%, respectively.

REGULATIONS

According to the Announcement of the Ministry of Finance, the SAT and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) promulgated on March 20, 2019 and came into effect on April 1, 2019, the VAT tax rates on sales, imported goods that were previously subject to 16% and 10% are now adjusted to 13% and 9%, respectively.

Withholding Income Tax

According to the Enterprise Income Tax Law and the Enterprise Income Tax Regulation (《企業所得稅法實施條例》), dividends generated after January 1, 2008 and payable by foreign-invested enterprises in the PRC to foreign enterprise investors shall be subject to a 10% withholding tax unless a tax treaty with different withholding tax arrangements has been made between the PRC and the jurisdiction of the relevant foreign enterprises. According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) issued by SAT on August 21, 2006 and came into effect on December 8, 2006, if the shareholders of a PRC company are Hong Kong residents holding at least 25% of the registered capital of the PRC company, a withholding tax rate of 5% applies to any dividends declared by the PRC company, or if the shareholders of a PRC company are Hong Kong residents holding less than 25% of registered capital, a withholding income tax rate of 10% applies.

According to Announcement of SAT on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements (《國家稅務總局關於發布〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》) effective on November 1, 2015 and partly amended on June 15, 2018 which is replaced by the Notice of SAT on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements (《國家稅務總局關於發布〈非居民納稅人享受協定待遇管理辦法〉的公告》) issued on October 14, 2019 and effective on January 1, 2020, the withholding tax rate of 5% does not automatically apply, and non-resident taxpayers claiming treaty benefits shall be handled in accordance with the principles of “self-assessment, claiming benefits, retention of the relevant materials for future inspection.” Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, simultaneously gather and retain the relevant materials for future inspection and accept follow-up administration by the tax authorities.

Pursuant to the Announcement on Matters Concerning “Beneficial Owners” in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), issued by the SAT on February 3, 2018 and came into effect on April 1, 2018, when determining an applicant’s “beneficial owner” status regarding tax treatments in connection with dividends, interests or royalties in tax treaties, several factors set forth below will be taken into account, although the actual analysis will be fact-specific: (i) whether the applicant is obligated to pay more than 50% of his or her income in 12 months to residents in a third country or region; (ii) whether the business operated by the applicant constitutes a substantial business operation; and (iii) whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate. The applicant must submit relevant documents to the competent tax authorities to prove his or her “beneficial owner” status.

REGULATIONS

In addition, PRC entities are also required to withhold a 10% (or 7% if paid to a Hong Kong resident who qualifies for the benefits of the Arrangement between China and Hong Kong) tax on interest paid under any cross-border shareholder loans. Prior to the payment of any interest and principal on any such shareholder loan, our PRC subsidiaries must present evidence of registration with SAFE regarding any such shareholder loan and may be required to provide evidence of payment of withholding tax on the interest payable on that shareholder loan.

Cultural Development Fee

According to the Supplementary Notice on Issues Relating to Cultural Undertaking Development Fee Policies Relating to the Pilot Scheme of Levying VAT in Place of Business Tax and Administration of Levying (《關於營業稅改徵增值稅試點有關文化事業建設費政策及徵收管理問題的補充通知》) effective as from May 1, 2016, advertising service providers are generally required to pay a cultural development fee at the rate of 3% on the billed sales amount obtained from the provision of advertising services offset by the after-tax payment made to other advertising service providers or publishers. According to the Notice of the Ministry of Finance on Adjusting the Relevant Policies of Certain Government-Managed Funds (《財政部關於調整部分政府性基金有關政策的通知》) issued by the Ministry of Finance, and relevant local policies, from July 1, 2019 to December 31, 2024, construction fee of cultural undertakings have been reduced by 50% in certain jurisdictions. Our PRC subsidiaries are subject to this policy.

REGULATIONS RELATED TO LABOR

The Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994, and last amended on December 29, 2018 and became effective on the same date, provides that employees are entitled to equal opportunities in employment, selection of occupations, receiving labor remuneration, rest days and holidays, protection of occupational safety and healthcare, social insurance and welfare. Employers must establish and improve the system for occupational safety and healthcare, provide training on occupational safety and healthcare to employees, comply with national and local regulations on occupational safety and healthcare, and provide necessary labor protective supplies to employees.

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) issued by the SCNPC on June 29, 2007 and last revised on December 28, 2012 and came into effect on July 1, 2013, requires every employer to enter into a written contract of employment with each of its employees. The employer shall not force the employees to work beyond the time limit and each employer must pay overtime compensation to its employees. The wage of each employee shall be no less than the local standard on minimum wages.

REGULATIONS

REGULATIONS RELATED TO SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

In accordance with the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) issued by the SCNPC on October 28, 2010 and last amended on December 29, 2018 and became effective on the same date, an employee shall participate in five types of social insurance funds, including pension insurance, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance. The premiums for maternity insurance and occupational injury insurance are paid by the employer, while the premiums for pension insurance, medical insurance and unemployment insurance are paid by both the employer and the employee. If the employer fails to fully contribute to social insurance funds on time, the collection agency for such social insurance may demand the employer to make full payment or to pay the shortfall within a set period and collect a late charge. If the employer fails to pay after the due date, the relevant government administrative body may impose a fine on the employer.

In accordance with the Regulation on the Administration of Housing Provident Funds (《住房公積金管理條例》) issued by the State Council on April 3, 1999 and last revised on March 24, 2019 and came into effect on the same date, enterprises must register with the competent managing center for housing funds and shall contribute to the Housing Provident Fund for any employee on its payroll. Where an employer fails to pay up housing provident funds within the prescribed time limit, the employer may be fined and ordered to make payment within a certain period.

REGULATION RELATED TO ANTI-UNFAIR COMPETITION AND ANTI-MONOPOLY OF PLATFORM ECONOMY SECTOR

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which was adopted by the Standing Committee of the NPC or the SCNPC on September 2, 1993, became effective as of December 1, 1993, and last amended on April 23, 2019, unfair competition refers to that the operator disrupts the market competition order and damages the legitimate rights and interests of other operators or consumers in violation of the provisions of the Anti-unfair Competition Law in the production and operating activities. Pursuant to the Anti-unfair Competition Law, operators shall abide by the principle of voluntariness, equality, impartiality, integrity and adhere to laws and business ethics during market transactions. Operators in violation of the Anti-unfair Competition Law shall bear corresponding civil, administrative or criminal liabilities depending on the specific circumstances.

REGULATIONS

The Anti-monopoly Law of the PRC (《中華人民共和國反壟斷法》) promulgated by the SCNPC, which became effective on August 1, 2008, and the Rules of the State Council on Declaration Threshold for Concentration of Undertakings (《關於經營者集中申報標準的規定》) promulgated by the State Council on August 3, 2008, and latest amended on September 18, 2018, require that where a concentration reaches one of the following thresholds, a declaration must be lodged in advance with the anti-monopoly law enforcement agency under the State Council, or otherwise the concentration shall not be implemented: (i) during the previous fiscal year, the total global turnover of all undertakings participating in the concentration exceeded RMB10 billion, and at least two of these undertakings each had a turnover of more than RMB400 million within China; or (ii) during the previous fiscal year, the total turnover within China of all the undertakings participating in the concentration exceeded RMB2 billion, and at least two of these undertakings each had a turnover of more than RMB400 million within China.

On October 23, 2020, the SAMR further issued the Measures for Examination and Approval of Concentration of Business Operators (《經營者集中審查暫行規定》), or the Examination Measures, which became effective on December 1, 2020. According to the Examination Measures, concentration refers to (i) a merger of undertakings; (ii) acquiring control over other undertakings by acquiring equities or assets; or (iii) acquisition of control over, or the possibility of exercising decisive influence on, an undertaking by contract or by any other means.

On February 7, 2021, the Anti-monopoly Committee of the State Council published the Anti-monopoly Guidelines for the Internet Platform Economy Sector (《關於平台經濟領域的反壟斷指南》) (the “Guideline”) which became effective on the same day and will operate as a compliance guidance under the existing PRC anti-monopoly laws and regulations for platform economy operators. The Guideline provides that the calculation of turnover in the field of platform economy may be different depending on the business model of the operators: for platform operators who only provide information matchings and collect commissions, their turnovers should be calculated including the service fee charged by the platform and other platform income; for the platform operators who participate in the market competition on the platform side, their turnovers shall be calculated including the transaction amount involved in the platform and other platforms. The concentration of undertakings involving the agreement control (VIE) structure falls within the scope of the antitrust review of concentration of undertakings. Where the concentration of undertakings meets the declaration standards set by the State Council, the operators shall declare to the Antimonopoly Law Enforcement Agency of the State Council in advance, and the concentration shall not be implemented if the concentration is not declared. According to the Anti-Monopoly Law of the PRC, if business operators fail to comply with the mandatory declaration requirement, the antimonopoly authority is empowered to terminate and/or unwind the transaction, dispose of relevant assets, shares or businesses within certain periods and impose fines of up to RMB500,000.

REGULATIONS

REGULATIONS RELATED TO M&A AND OVERSEAS LISTINGS

The Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, the China Securities Regulatory Commission (the “CSRC”) and the SAFE jointly adopted the Provisions on Foreign Investors’ Merger with and Acquisition of Domestic Enterprises (the “M&A Rules”) (《關於外國投資者併購境內企業的規定》). The M&A Rules require in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise where any of the following situations exist: (i) the transaction involves an important industry in China, (ii) the transaction may affect national economic security, or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The M&A Rules, among other things, also require that (i) PRC entities or individuals obtain Ministry of Commerce approval before they establish or control an SPV overseas, provided that they intend to use the SPV to acquire their equity interests in a PRC company at the consideration of newly issued share of the SPV (the “Share Swap”), and list their equity interests in the PRC company overseas by listing the SPV in an overseas market; (ii) the SPV obtains Ministry of Commerce’s approval before it acquires the equity interests held by the PRC entities or PRC individual in the PRC company by Share Swap; and (iii) the SPV obtains CSRC approval before it lists overseas.

In addition, the Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》) rules issued by the Ministry of Commerce that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the Ministry of Commerce, and the rules prohibit any activities attempting to bypass a security review, including by structuring a transaction through a proxy or contractual control arrangement. The Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law, further provide that PRC regulators are required to accelerate rule-making related to overseas issuance and listing of securities and cross-border data flow and legal enforcement.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

We are the largest voice-based mobile social platform and the largest gamer-centric mobile social platform in China in terms of average MAUs in the first half of 2021, according to Frost & Sullivan. With our diversified product features and functions, we encourage social interactions among our users, and through voice-based and other real-time forms of interactions and entertainment offerings, facilitate the creation of genuine and lasting social relationships.

Our history can be traced back to 2014 with the establishment of Guangzhou Quwan. We have since then been led by our founder, Mr. Song, who is a serial entrepreneur in the game industry with deep insights into the interests and needs of game lovers and the rising generations in China. For the biography and industry experience of Mr. Song, please refer to the section headed “Directors and Senior Management” in this Document.

OUR BUSINESS MILESTONES

The following sets forth certain key business development milestones of our Group:

Year	Event
2014	Guangzhou Quwan, our onshore holding company, was established in the PRC. We launched <i>TT Chat</i> app.
2017	We launched social entertainment services.
2019	Our Company was established in the Cayman Islands. We launched our esports business.
2020	We completed Series A to B+ financing and raised a total of approximately US\$107.20 million. TTG e-Sports teams participated in “League of Legends” and “King of Glory” professional league tournaments. <i>TT Chat</i> became the official voice platform of the 2020 King Pro League (KPL) Spring and the Peacekeeper Elite League (PEL).
2021	We completed Series C financing and raised a total of US\$45.00 million. <i>TT Chat</i> became an official partner of the 2021 League of Legends Pro League (LPL).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES⁽¹⁾

The principal business activities and the dates of incorporation of the members of our Group which are most relevant to our core operations during the Track Record Period are shown below.

Name of major subsidiary or operating entity	Place of incorporation	Date of incorporation	Principal business activities
Guangzhou Quwan	PRC	December 13, 2014	Software and mobile app development and operation
Zhuhai Huanquhui	PRC	July 12, 2019	Holding Company
Guangzhou Shabake	PRC	October 21, 2015	Online gaming business and mobile app operation
Xiamen Saimailei	PRC	September 11, 2017	Esport business operation
Guangzhou Jingwan	PRC	May 29, 2020	Esport business operation

Note:

- (1) Our major subsidiaries and operating entities are selected with reference to the importance to our business operation.

For information on our other subsidiaries and operating entities, please see Note 1 of the Accountant’s Report set out in Appendix I to this Document.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

1. Acquisition of Xiamen Saimailei

Xiamen Saimailei is a limited liability company established in the PRC on September 11, 2017. It is principally engaged in the business of e-sport game team operation. Xiamen Saimailei owns the rights and licenses in the Honor of Kings Professional League, a multiplayer online battle arena game. On December 3, 2019, Guangzhou Qujing entered into an agreement with the shareholder of Xiamen Saimailei, Xiamen Qingshoutang Culture Media Co., Ltd. (廈門慶壽堂文化傳媒有限公司) (“**Xiamen Qingshoutang**”), to purchase 100% equity interest in Xiamen Saimailei for a cash consideration of RMB42,000,000. To the best knowledge of our Directors, Xiamen Qingshoutang is an Independent Third Party. The consideration of the acquisition was determined after arms’ length negotiations between the parties, taking into account the valuation report prepared by an independent valuer. Completion of the acquisition took place in January 2020, upon which Xiamen Saimailei became a

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

wholly-owned subsidiary of Guangzhou Qujing. The acquisition has been properly and legally completed, with all applicable requisite regulatory approvals obtained. The license and rights of Xiamen Saimailei entitle the Group to own a permanent participation right in the Honor of Kings Professional League, an official e-Sports League operated by Tencent. The Group expects to increase its online game businesses through the acquisitions of the related rights and licenses.

2. Acquisition of Uki Group

With a view to expanding our social platform, on April 1, 2021, Guangzhou Quwan, entered into an agreement with, amongst others, Uki Technology Limited, its onshore subsidiaries (the “**Uki Group**”) and its shareholders to acquire certain assets of the Uki Group and the equity interest in certain members of Uki Group. Uki Group is primarily engaged in the operation of a mobile application chatting platform called “Uki”. The consideration for the acquisition primarily comprised: (i) cash consideration of approximately RMB10,138,000, which was offset by the debt owed by Uki Group to the Group; (ii) 2,013,233 options granted by the Company to the management of Uki Group on the condition that such options shall be subject to the terms of the employee share option scheme of the Company; (iii) 752,860 ordinary Shares issued and allotted to Iridescent Rainbow Limited, a limited liability company established in BVI by certain shareholders of Uki Technology Limited on the condition that the shareholders of Iridescent Rainbow Limited are only entitled to the economic interests in the Shares held by Iridescent Rainbow Limited and the voting rights attached to such Shares shall be exercised by an entity nominated by Guangzhou Quwan; (iv) 2,521,935 ordinary Shares issued and allotted to Matrix Partners China V Hong Kong Limited, being a shareholder of Uki Technology Limited; and (v) a cash consideration of approximately RMB2,103,000 (or the equivalent in USD) payable to Hengchuang International Ltd., being a shareholder of Uki Technology Limited. The consideration of the acquisition was determined after arms’ length negotiations between the parties, with reference to the valuation reports issued by independent valuers. The acquisition has been properly and legally completed in May 2021, with all applicable requisite regulatory approvals obtained.

Save as otherwise disclosed above, to the best knowledge of the Company, Uki Technology Limited, its shareholders and the members of the Uki Group are Independent Third Parties. Upon completion of the acquisition, the Company started the operation of “Uki” and certain members of the Uki Group (including Shanghai Xiaojianbing, Shanghai Chenlong and Chengdu Spherical World) became indirect wholly owned subsidiaries of Guangzhou Quwan.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

MAJOR SHAREHOLDING CHANGES OF OUR GROUP

(a) Our major subsidiaries and operating entities

Guangzhou Quwan

We commenced operations with the establishment of Guangzhou Quwan, our principal operating entity in the PRC on December 13, 2014, as a limited liability company in the PRC with an initial registered capital of RMB10,000,000 which was held in the following manner.

Name of Shareholder	Amount of Registered Capital Subscribed <i>(RMB in thousands)</i>	Percentage Ownership <i>(%)</i>
SONG Ke	4,465	44.65
QIU Zhizhao	564	5.64
YU Teng	423	4.23
ZHOU Yang	1,128	11.28
CHEN Guangyao	470	4.7
Zhuhai Xinghui Investment Co., Ltd. (珠海星輝投資管理有限公司)	2,750	27.5
Xinyu High-tech Zone Houhe Investment Management Center (Limited Partnership) (新余高新區厚合投資管理中心(有限合伙))	200	2
Total	10,000	100

Since its incorporation and up to March 2016, Guangzhou Quwan underwent two rounds of increase in its share capital and its shareholders also effected share transfer. The table below sets out the shareholding structure of Guangzhou Quwan upon completion of such capital increase and the share transfer:

Name of Shareholder	Amount of Registered Capital Subscribed <i>(RMB in thousands)</i>	Percentage Ownership <i>(%)</i>
SONG Ke	2,749.57	25.81
CHEN Guangyao	352.5	3.31
QIU Zhizhao	423	3.97
ZHOU Yang	846	7.94
YU Teng	317.25	2.98
Xinyu High-tech Zone Houhe Investment Management Center (Limited Partnership) (新余高新區厚合投資管理中心(有限合伙))	200	1.88

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Shareholder	Amount of Registered Capital Subscribed (RMB in thousands)	Percentage Ownership (%)
Zhuhai Xinghui Investment Co., Ltd. (珠海星輝投資管理有限公司)	3,502.28	32.87
Zhangshu Yiqu Investment Management Center (Limited Partnership) (樟樹市誼趣投資管理中心(有限合伙)) ⁽¹⁾	132.08	1.24
Zhangshu Shangqu Investment Management Center (Limited Partnership) (樟樹市尚趣投資管理中心(有限合伙)) ⁽²⁾	39.83	0.37
Wei qu Investment ⁽³⁾	427.28	4.01
Guiyang Shengqu ⁽³⁾	1,664.16	15.62
Total	10,653.94	100.00

Notes:

- (1) Mr. Song was then general partner of Zhangshu Yiqu Investment Management Center (Limited Partnership).
- (2) Mr. Song was then general partner of Zhangshu Shangqu Investment Management Center (Limited Partnership).
- (3) Mr. Song is the general partner of Wei qu Investment and Guiyang Shengqu.

From 2018 to 2020, Mr. Song, and several entities owned by him and other management of the Company (collectively, the “Management Buyers”) entered into a series of equity interest transfer agreements with the other shareholders of Guangzhou Quwan to further acquire approximately 49.36% equity interests in Guangzhou Quwan for a total consideration of RMB370.10 million. The consideration was determined after arms’ length negotiations between the parties, taking into account Guangzhou Quwan’s total assets and liabilities and its profitability. The acquisitions were properly and legally completed by September 9, 2020. The table below sets out the shareholding structure of Guangzhou Quwan upon completion of the acquisitions:

Name of Shareholder	Amount of Registered Capital Subscribed (RMB in thousands)	Percentage Ownership (%)
SONG Ke	3,771.42	35.40
QIU Zhizhao	423	3.97
CHEN Guangyao	352.50	3.31
Linxia Shouqu ⁽¹⁾	2,436.88	22.87

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of Shareholder	Amount of Registered Capital Subscribed (RMB in thousands)	Percentage Ownership (%)
Wenzhou Huanqu ⁽¹⁾	1,046	9.82
Weiqu Investment ⁽¹⁾	427.28	4.01
Guiyang Shengqu ⁽¹⁾	1,664.16	15.62
Guangzhou Quyí ⁽²⁾	532.70	5
Total	10,653.94	100.00

Note:

- (1) Mr. Song is the general partner of Weiqu Investment, Guiyang Shengqu, Linxia Shouqu and Wenzhou Huanqu.
- (2) Song Guowen, Mr. Song’s brother, is the general partner of Guangzhou Quyí.

To facilitate the payment of the consideration for the above acquisition, Guangzhou Quwan extended several loans in an aggregate amount of approximately RMB388,400,000 to the Management Buyers. The loans were repayable on demand without interest or had terms from one to three years with interest rate of 4.05% or 4.15% per annum. During the process of the reorganization, the interests in relation to the loans to Management Buyer were waived by Guangzhou Quwan and the loans were fully repaid by the Management Buyers by June 2021.

Zhuhai Huanquhui

Zhuhai Huanquhui is a wholly-owned subsidiary of our Company incorporated in the PRC on July 12, 2019 with a registered capital of US\$32,000,000. Upon its establishment, the registered capital of Zhuhai Huanquhui was held as to 100% by Quwan HK. On December 14, 2020 the registered capital of Zhuhai Huanquhui was increased from US\$32,000,000 to US\$100,000,000.

Guangzhou Shabake

Guangzhou Shabake is a limited liability company established in the PRC on October 21, 2015 with a registered capital of RMB10,000,000. Upon its establishment, the registered capital of Guangzhou Shabake was held as to 100% by Guangzhou Quwan.

Guangzhou Jingwan

Guangzhou Jingwan Cultural Media Co., Ltd. is a limited liability company established in the PRC on May 29, 2020, with a registered capital of RMB170,000,000. Upon its establishment, the registered capital of Guangzhou Jingwan was held as to 100% by Guangzhou Qujing.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

(b) Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on May 29, 2019 as the offshore holding company of our Group to facilitate offshore financing and in preparation for the [REDACTED]. The initial authorized share capital of our Company was US\$50,000 divided into 500,000,000 ordinary shares with a par value of US\$0.0001 each. On the same day, one Share was allotted and issued at par value to the initial subscriber which is an Independent Third Party and then transferred to Exploring Time Limited at par value. Exploring Time Limited is wholly owned by Mr. Song. Such share was subsequently transferred to Funplus at par value on November 11, 2020.

On November 11, 2020, (i) 38,947,024 Shares were allotted and issued at par value to Funplus, (ii) 5,640,000 Shares were allotted and issued at par value to Fiery Dragon, and (iii) 10,656,352 Shares were allotted and issued at par value to Peerless Hero. On the same day, 17,723,079 Series Angel Preferred Shares were allotted and issued at par value to Vanker.

The Shares and the Series Angel Preferred Shares issued on November 11, 2020 are set forth in the table below:

Name of the Shareholder	Number of Series Angel Preferred Shares	Number of Shares
Funplus ⁽¹⁾	–	38,947,024
Vanker ⁽²⁾	17,723,079	–
Fiery Dragon ⁽³⁾	–	5,640,000
Peerless Hero ⁽⁴⁾	–	10,656,352
Total	<u>17,723,079</u>	<u>55,243,376</u>

Notes:

- (1) Funplus is a company incorporated in the BVI on September 10, 2019 and was then wholly owned by Exploring Time Limited, being a wholly owned subsidiary of Mr. Song. On July 21, 2021, Exploring Time Limited transferred its share in Funplus to Future Exploration, which is in turn wholly owned by Cantrust (Far East) Limited as the trustee of the SK Family Trust.
- (2) Vanker is a company incorporated in the BVI on September 10, 2019 and was then wholly owned by Exploring Time Limited, being a wholly owned subsidiary of Mr. Song. On July 21, 2021, Exploring Time Limited transferred its share in Vanker to Future Exploration, which is in turn wholly owned by Cantrust (Far East) Limited as the trustee of the SK Family Trust.
- (3) Fiery Dragon is a company incorporated in the BVI on May 27, 2019 and is wholly-owned by Mr. Qiu Zhizhao, one of our Group founders and a minority shareholder of Guangzhou Quwan.
- (4) Peerless Hero is a company incorporated in the BVI on May 27, 2019 and is wholly-owned by Mr. Chen Guangyao, our executive Director.

On December 10, 2020, (i) 8,524,297 Shares were allotted and issued at par value to Yun Qu, and (ii) 8,534,952 Shares were allotted and issued at par value to Galaxy Nebula Limited.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The Shares issued on December 10, 2020 are set forth in the table below:

Name of the Shareholder	Number of Shares
Yun Qu ⁽¹⁾	8,524,297
Galaxy Nebula Limited ⁽²⁾	8,534,952
Total	<u>17,059,249</u>

- (1) Yun Qu is a company incorporated in the BVI on October 16, 2020 and is wholly-owned by Mr. Du Guo, our executive Director.
- (2) Galaxy Nebula Limited is a company incorporated in the BVI on October 16, 2020. Galaxy Nebula Limited is owned as to approximately 51.18% by Long Ling, approximately 48.62% by Kong Xiangyi, approximately 0.20% by Mr. Song.

On December 28, 2020, our Company repurchased 1,948,890 Shares from Funplus, 649,630 Shares from Fiery Dragon, 649,630 Shares from Peerless Hero, 974,445 Shares from Yun Qu and 974,445 Shares from Galaxy Nebula Limited, respectively, at an aggregate consideration of US\$16,000,000. On February 7, 2021, the Company repurchased 2,589,255 ordinary shares from Galaxy Nebula Limited at a consideration of approximately US\$3,080,000.

On March 19, 2021, we issued 10,440,854 Series Angel Preferred Shares to Dream League Limited for nominal cash consideration as part of the offshore restructuring of our company. Dream League Limited is controlled by certain senior management and other employees of the Company who, prior to the completion of our restructuring, held equity interests in Guangzhou Quwan substantially in proportion to their respective beneficial ownership in our company.

On April 21, 2021, (i) 752,860 Shares were allotted and issued to Iridescent Rainbow Limited and (ii) 2,521,935 Shares were allotted and issued to Matrix Partners China V Hong Kong Limited as the consideration share of the acquisition of Uki Group. Please refer to the subsection headed “MAJOR ACQUISITIONS, DISPOSALS AND MERGERS – 2. Acquisition of Uki Group” for more details.

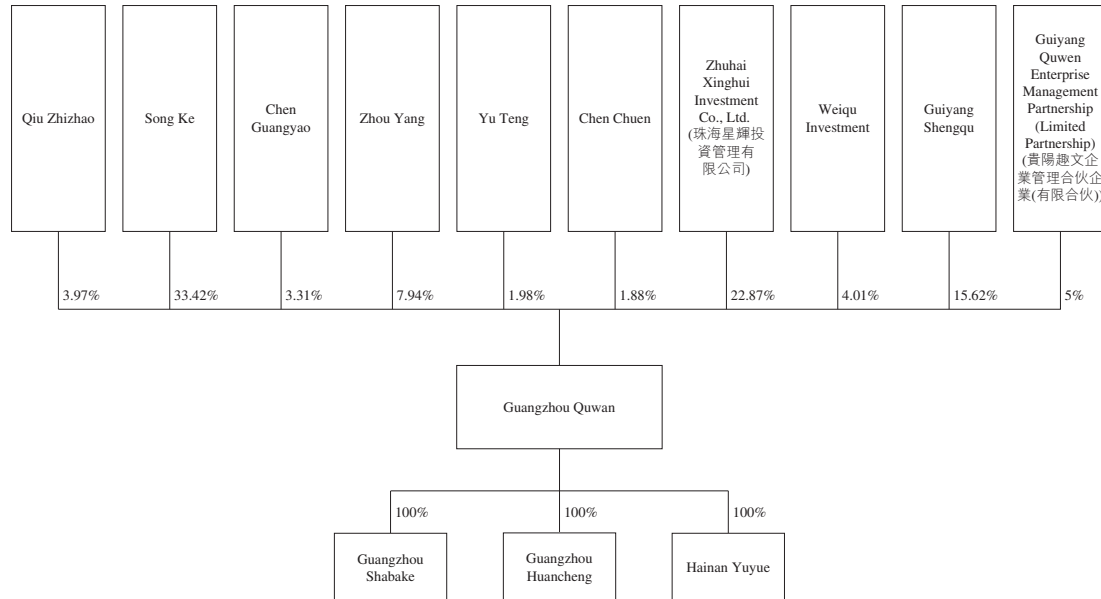
On June 15, 2021, 2,828,336 Shares were transferred by Funplus to Image Frame Investment (HK) Limited for a total consideration of US\$15,000,000 and such Shares were re-designated as Series C Preferred Shares.

Please refer to the subsection headed “[REDACTED] Investments” for the details of the investment made by the [REDACTED] Investors in the Company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

The following chart sets forth our simplified Group’s corporate and shareholding structure immediately prior to the commencement of the Reorganization on May 29, 2019.



In preparation for the [REDACTED], we underwent the following Reorganization steps:

1. Incorporation of Our Company

On May 29, 2019, our Company was incorporated in the Cayman Islands as an exempted company with limited liability and the ultimate holding company of our Group, as part of the Reorganization. Upon incorporation, the authorized share capital of our Company was US\$50,000 divided into 500,000,000 shares with par value of US\$0.0001 each.

2. Incorporation of Quwan HK

On June 13, 2019, Quwan HK was incorporated in Hong Kong as a limited liability company and as an intermediate holding company of our Group with our Company as the sole shareholder.

3. Incorporation of Zhuhai Huanquhui

On July 12, 2019, Zhuhai Huanquhui was established in the PRC as a limited liability company with Quwan HK as the sole shareholder.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

4. Contractual Arrangements in respect of Guangzhou Quwan

On November 3, 2020, Zhuhai Huanquhui, a wholly-owned subsidiary of our Company, entered into various agreements (later amended and restated on October 11, 2021) that constituted the Contractual Arrangements with, among others, Guangzhou Quwan, the Registered Shareholders and the general partners of limited partnership Registered Shareholders (as the case may be), pursuant to which Zhuhai Huanquhui would exercise effective control over the operations of, and enjoy substantially all the economic benefits of Guangzhou Quwan and its subsidiaries, which in turn holds certain of our Group’s licenses and permits necessary to operate our businesses. Please refer to “Contractual Arrangements” and “Connected Transactions” in this Document for details of the Contractual Arrangements.

[REDACTED] INVESTMENTS

Our Company underwent several rounds of [REDACTED] Investments as detailed below.

1. Series A investment

On April 13, 2020, the Company, Mr. Song, Matrix Partners China V Hong Kong Limited and Skycus China Fund, L.P., amongst others, entered into a convertible note purchase agreement (the “**Note Purchase Agreement**”), pursuant to which Matrix Partners China V Hong Kong Limited purchased a convertible promissory note (the “**Original Matrix Note**”) issued by the Company in the principal amount of US\$13,880,000 and Skycus China Fund, L.P. purchased a convertible promissory note (the “**Skycus Note**”) issued by the Company in the principal amount of US\$11,120,000. Interest under the Original Matrix Note and the Skycus Note accrues at a rate of 8% per annum on the outstanding principal amount from the date of the notes until the date of full payment of the outstanding principal amounts of notes or conversion of the entire amount of the notes into Shares of the Company. Pursuant to the terms of the Original Matrix Note and the Skycus Note, the number of Shares to be issued upon conversion of the notes shall be calculated by dividing the outstanding principal amount by the conversion price and the conversion price shall be calculated by dividing US\$215,000,000 by the total number of outstanding Shares immediately prior to the conversion of the notes (on a fully diluted basis).

Matrix Partners China V Hong Kong Limited and Matrix Partners China VI Hong Kong Limited further entered into a loan assignment agreement, pursuant to which, Matrix Partners China V Hong Kong Limited assigned all its rights, title, interest and obligations under the Note Purchase Agreement and the Original Matrix Note to Matrix Partners China VI Hong Kong Limited. On August 14, 2020, the Company issued a convertible promissory note in the principal amount of US\$13,880,000 to Matrix Partners China VI Hong Kong Limited (the “**Matrix Note**”, together with the Skycus Note, the “**Notes**”). The Original Matrix Note was terminated in its entirety and was surrendered to the Company upon the issue of the Matrix Note.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On November 11, 2020, the Company, among others, entered into a Series A Preferred Share Purchase Agreement with our Series A investors (the “**Series A Investors**”), namely Matrix Partners China VI Hong Kong Limited and Skycus China Fund, L.P., pursuant to which the Series A Investors agreed to subscribe for 23,386,682 Series A Preferred Shares in aggregate to be issued by our Company for an aggregate consideration of US\$47,195,123.00 constituting cash of US\$22,195,123.00 and the Notes of US\$25,000,000.00. Such consideration was fully settled on November 13, 2020.

Name of Series A Investor	Number of Series A Preferred Shares	Consideration
Matrix Partners China VI Hong Kong Limited ⁽¹⁾	12,992,601	US\$26,219,512.30 constituting cash of US\$12,339,512.30 and the Matrix Note of US\$13,880,000.00
Skycus China Fund, L.P. ⁽¹⁾	10,394,081	US\$20,975,610.70 constituting cash of US\$9,855,610.70 and the Skycus Note of US\$11,120,000.00
Total	<u>23,386,682</u>	<u>US\$47,195,123.00</u> <u>constituting cash of US\$22,195,123.00 and the Notes of US\$25,000,000.00</u>

Note:

(1). Please refer to the subsection headed “[REDACTED] Investments – 6. Information about the [REDACTED] Investors” for more details of the investors.

2. Series B investment and Series B+ investment

Pursuant to the Series B Preferred Share Purchase Agreements dated December 10, 2020, the Series B Investors, namely Matrix Partners China VI Hong Kong Limited and Duckling Fund, L.P., agreed to subscribe for 12,992,601 Series B Preferred Shares in aggregate to be issued by our Company for a total consideration of US\$40,000,000, which was fully settled on December 28, 2020.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The Series B Preferred Shares were issued on December 10, 2020, as set forth in the table below:

Name of Shareholder	Number of Series B Preferred Shares	Consideration
Matrix Partners China VI Hong Kong Limited ⁽¹⁾	3,248,150	US\$10,000,000
Duckling Fund, L.P. ⁽¹⁾	9,744,451	US\$30,000,000
Total	<u>12,992,601</u>	<u>US\$40,000,000</u>

Note:

- (1). Please refer to the subsection headed “[REDACTED] Investments – 6. Information about the [REDACTED] Investors” for more details of the investors.

Pursuant to the Series B+ Preferred Share Purchase Agreements dated December 29, 2020, the Series B+ Investor, namely Beautiful Success Holdings Limited, agreed to subscribe for 5,197,041 Series B+ Preferred Shares to be issued by our Company for an aggregate consideration of US\$20,000,000, which was fully settled on December 30, 2020.

The Series B+ Preferred Shares were issued on December 29, 2020, as set forth in the table below:

Name of Shareholder	Number of Series B+ Preferred Shares	Consideration
Beautiful Success Holdings Limited ⁽¹⁾	5,197,041	US\$20,000,000
Total	<u>5,197,041</u>	<u>US\$20,000,000</u>

Note:

- (1). Please refer to the subsection headed “[REDACTED] Investments – 6. Information about the [REDACTED] Investors” for more details of the investors.

3. Series C investment

Pursuant to the Series C Preferred Share Purchase Agreements dated June 4, 2021, the Series C Investors, namely Image Frame Investment (HK) Limited, 3W Global Fund, and Beautiful Success Holding Limited, agreed to subscribe for 6,802,686 Series C Preferred Shares in aggregate to be issued by our Company for a total consideration of US\$45,000,000, which was fully settled on June 17, 2021.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The Series C Preferred Shares were issued on June 15, 2021, as set forth in the table below:

Name of Shareholder	Number of Series C Preferred Shares	Consideration
Image Frame Investment (HK) Limited ⁽¹⁾	2,267,562	US\$15,000,000
3W Global Fund ⁽¹⁾	2,267,562	US\$15,000,000
Beautiful Success Holdings Limited ⁽¹⁾	2,267,562	US\$15,000,000
Total	<u>6,802,686</u>	<u>US\$45,000,000</u>

Note:

(1). Please refer to the subsection headed “[REDACTED] Investments – 6. Information about the [REDACTED] Investors” for more details of the investors.

4. Principal Terms of the [REDACTED] Investments

The below table summarizes the principal terms of the [REDACTED] Investments:

	Series A	Series B	Series B+	Series C
Date of initial share purchase agreement	November 11, 2020	December 10, 2020	December 29, 2020	June 4, 2021
Date on which the investment was fully settled ⁽¹⁾	November 13, 2020	December 28, 2020	December 30, 2020	June 17, 2021
Total number of Shares subscribed	23,386,682	12,992,601	5,197,041	6,802,686
Funds raised by our Group	US\$47,195,123	US\$40,000,000	US\$20,000,000	US\$45,000,000
Cost per Share paid (US\$)	US\$2.02	US\$3.08	US\$3.85	US\$6.62
Discount to the [REDACTED] (approximation) ⁽²⁾	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Corresponding valuation of our Company (approximation)	US\$262,195,123	US\$440,000,000 ⁽³⁾	US\$550,000,000	US\$1,045,000,000 ⁽⁴⁾
Basis of determining the consideration paid	The consideration for each round of the [REDACTED] Investments was determined based on arm’s length negotiations between our Company and the [REDACTED] Investors after taking into consideration the timing of the [REDACTED] Investments, our then valuation when the respective investment agreements were entered into and the business operations and financial performance of our Group.			
Lock-up period	While the [REDACTED] Investors are not subject to any [REDACTED] arrangement at the time of [REDACTED] pursuant to the relevant agreements in relation to the [REDACTED] Investments, it is expected that [REDACTED] undertakings will be given to the [REDACTED].			

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	Series A	Series B	Series B+	Series C
Use of proceeds from the [REDACTED] Investments		We utilized the proceeds for the principal business of our Group as approved by the Board, including for the purpose of business expansion and general working capital. As of the Latest Practicable Date, approximately 36% proceeds from the [REDACTED] Investments has been utilized.		
Strategic benefits from the [REDACTED] Investors		At the time of the [REDACTED] Investments, our Directors were of the view that our Company would benefit from the additional capital provided by the [REDACTED] Investors' investments in our Company and the [REDACTED] Investors' knowledge and experience.		

Notes:

- (1) Date of full settlement refers to the date when the underlying shares have been issued to the [REDACTED] Investors upon irrevocable settlement and receipt of funds by our Company.
- (2) The discount to the [REDACTED] is calculated based on the assumption that the [REDACTED] is HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED], assuming the conversion of the Preferred Shares into Shares on a one-to-one basis have been completed prior to the [REDACTED].
- (3) The difference between our valuation for Series A investment and our valuation for Series B investment was primarily due to the following reasons: (1) part of the consideration for Series A investment was settled through conversion of convertible bonds issued to the Series A Investors and the conversion price was determined upon issuance of the convertible bonds in April 2020; and (2) the increase of our user numbers and the business expansion of the Group from April to December 2020.
- (4) The increase in the valuation of our Company was due to the significant increase of our user numbers and our revenue in the first few months of 2021 and the investor's confidence in the prospect of the business of our Company and future business cooperation with the Company.

5. Special Rights of the [REDACTED] Investors

Our Company and, among others, the [REDACTED] Investors entered into the share purchase agreements and the shareholders agreements, pursuant to which certain shareholder rights were agreed among the parties. Pursuant to the share purchase agreements, the shareholders agreements and the then memorandum and articles of association of our Company, certain [REDACTED] Investors have, among other rights, (i) information rights; (ii) the right to designate directors; (iii) registration rights; (iv) right of first-refusal; (v) right of co-sale; (vi) redemption rights; and (vii) right of prior consent to corporate actions.

The redemption rights of the [REDACTED] Investors have been suspended immediately before the first filing of our application for the [REDACTED] of our [REDACTED] on the Stock Exchange. The redemption rights shall resume to be exercisable upon the earliest of (i) the withdrawal of the [REDACTED] by the Company; (ii) the rejection of the [REDACTED] by the Hong Kong Stock Exchange; or (iii) the expiry of 6 months from the day of the first filing of the [REDACTED] by the Company if no Qualified [REDACTED] has been consummated by then (or such later date as the holders of the Series C Preferred Shares, the Series B+ Preferred Shares, the Series B Preferred Shares and the Series A Preferred Shares then outstanding and the Company agree in writing). All other special rights of the

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

[REDACTED] Investors granted under the foregoing documents will be automatically terminated upon the completion of a Qualified [REDACTED] in Hong Kong. Qualified [REDACTED] means [REDACTED] of ordinary [REDACTED] of the Company (or securities representing such ordinary Shares) registered under the Securities Act and an implied post-money valuation of US\$1.35 billion or more, or in a similar [REDACTED] of ordinary Shares in a jurisdiction and on an internationally recognized securities exchange or inter-dealer quotation system outside of the United States, including the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Stock Exchange of Hong Kong Limited or such other stock exchange which shall be approved by the holder(s) representing at least fifty percent (50%) of the voting power of the then outstanding Preferred Shares (voting together as a single class and calculated on an as-converted basis) and the holder(s) representing more than fifty percent (50%) of ordinary Shares issued and outstanding, provided such [REDACTED] is equivalent to the aforementioned in terms of [REDACTED] and regulatory approval.

6. Information about the [REDACTED] Investors

The background information of our [REDACTED] Investors is set out below.

Matrix Partners

Matrix Partners China V Hong Kong Limited

Matrix Partners China V Hong Kong Limited is a company incorporated in Hong Kong and owned as to 90.58% by Matrix Partners China V, L.P.. Matrix Partners China V, L.P., is an exempted limited partnership organized and existing under the laws of the Cayman Islands. The general partner of Matrix Partners China V, L.P. is Matrix China Management V, L.P.. The general partner of Matrix China Management V, L.P. is Matrix China V GP GP, Ltd.. Timothy A. Barrows, David Ying Zhang, David Su and Harry Ho Kee Man are directors of Matrix China V GP GP, Ltd. and are deemed to have shared investment voting power over the shares held by Matrix Partners China V, L.P.. After due enquiry and to the best knowledge of our directors, each of Timothy A. Barrows, David Ying Zhang, David Su, Harry Ho Kee Man, the limited partners of Matrix Partners China V, L.P., and their ultimate beneficial owners are Independent Third Parties, and no one holds more than one third of the economic interest of Matrix Partners China V, L.P..

Matrix Partners China VI Hong Kong Limited

Matrix Partners China VI Hong Kong Limited is a company incorporated in Hong Kong and owned as to 90.23% by Matrix Partners China VI, L.P.. Matrix Partners China VI, L.P., is an exempted limited partnership organized and existing under the laws of the Cayman Islands. The general partner of Matrix Partners China VI, L.P. is Matrix China Management VI, L.P.. The general partner of Matrix China Management VI, L.P. is Matrix China VI GP GP, Ltd.. Timothy A. Barrows, David Ying Zhang, David Su, Harry Ho Kee Man are directors of Matrix China VI GP GP, Ltd. and are deemed to have shared investment voting power over the shares held by Matrix Partners China VI, L.P. After due enquiry and to the best knowledge of our

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directors, each of Timothy A. Barrows, David Ying Zhang, David Su and Harry Ho Kee Man, the limited partners of Matrix Partners China VI, L.P., and their ultimate beneficial owners are Independent Third Parties, and no one holds more than one third of the economic interest of Matrix Partners China VI, L.P..

Skycus Entities

Skycus China Fund, L.P.

Skycus China Fund, L.P. is a limited partnership established in the Cayman Islands. Skycus China Fund, L.P. is managed by its general partner, Parallel Universes Asset Management Limited, which is ultimately controlled by Eric Li. To the best of our Directors' knowledge, no limited partner of Skycus China Fund, L.P. holds more than one third of the economic interest of Skycus China Fund, L.P.. Skycus China Fund, L.P. focuses on investment opportunities being created in emerging industries driven by innovations, and traditional industries being transformed and upgraded. Skycus China Fund, L.P. intends to primarily invest in strategic emerging industries (including telecommunication, media and technology, culture, sports and grand health industries) , covering growth-stage and mature-stage portfolios, and in leading enterprises with a vision to collectively lead or participate in depth in the integration and expansion of industry value chain.

Duckling Fund, L.P.

Duckling Fund, L.P., an exempted limited partnership registered under the laws of Cayman Islands, whose general partner is Grandiflora Hook GP Limited and ultimately controlled by Eric Li. To the best of our Directors' knowledge, the only limited partner of Duckling Fund, L.P. is Lionet Fund, L.P., which is a fund focusing on logistics, healthcare, telecommunication, media, technology and consumer industries investment. The general partner of Lionet Fund, L.P. is Grandiflora Hook GP Limited. Lionet Fund, L.P. has more than 15 limited partners, none of which holds more than one third of the interest in Lionet Fund, L.P..

Beautiful Success Holdings Limited

Beautiful Success Holdings Limited is owned by Orchid Asia VII, L.P. as to 93% and Orchid Asia VII Co-Investment, Limited as to 7%. Orchid Asia VII Co-Investment, Limited is wholly owned by AREO Holdings Limited. The general partner of Orchid Asia VII, L.P. is OAVII Holdings, L.P., whose general partner is Orchid Asia VII GP, Limited. Orchid Asia VII GP, Limited is wholly owned by Orchid Asia V Group Management Limited, which is wholly owned by Orchid Asia V Group, Limited, which is in turn wholly owned by AREO Holdings Limited. Areo Holdings Limited is wholly-owned by Ms. Lam Lai Ming, and is controlled by Mr. Gabriel Li by virtue of his directorship there. To the best of our Directors' knowledge, each of Ms. Lam Lai Ming and Mr. Gabriel Li is an Independent Third Party.

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Image Frame Investment (HK) Limited

Image Frame Investment (HK) Limited is a limited liability company incorporated in Hong Kong. Image Frame Investment (HK) Limited is ultimately controlled by Tencent Holdings Limited (“Tencent Holdings”), a company listed on the Main Board of the Stock Exchange (HKEx: 700). Tencent Holdings is one of the leading providers of Internet value-added services in China, including communications and social, digital content, advertising, fintech and cloud services.

3W Global Fund

3W Global Fund is a company limited by shares established in Cayman Islands and managed by 3W Fund Management Limited as its investment manager. 3W Fund Management Limited (“3W Fund Management”) is an investment management firm with expertise in equity investments. 3W Fund Management is licensed by the SFC to carry out type 9 (asset management) regulated activity and mainly manages assets for institutional investors.

7. Public Float

Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Global Employee Incentive Plan), Our Controlling Shareholders will control approximately [REDACTED]% of the total issued Shares, and such Shares will not be counted towards the public float.

Save for Funplus, Vanker, Peerless Hero, Yun Qu, Fiery Dragon, Matrix Partners V Hong Kong Limited, Matrix Partners VI Hong Kong Limited, Skycus China Fund, L.P., Duckling Fund, L.P. and Iridescent Rainbow Limited, to the best of the Directors’ knowledge, all other [REDACTED] Investors and Shareholders are not connected persons of our Company. Over 25% of our Company’s total issued Shares will be held by the public upon completion of the [REDACTED] as required under Rule 8.08(1)(a) of the Listing Rules.

8. Compliance with Interim Guidance and Guidance Letters

The Joint Sponsors confirm that the investments by the [REDACTED] Investors are in compliance with the Guidance Letter HKEX-GL29-12 issued in January 2012 and updated in March 2017 by the Stock Exchange, the Guidance Letter HKEX-GL43-12 issued in October 2012 and updated in July 2013 and in March 2017 by the Stock Exchange and the Guidance Letter HKEX-GL44-12 issued in October 2012 and updated in March 2017 by the Stock Exchange.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CAPITALIZATION OF OUR COMPANY

The below table summarizes the capitalization of our Company as at the Latest Practicable Date:

Shareholders ⁽²⁾	As at the Latest Practicable Date						Aggregate ownership and voting rights percentage (%)	Immediately upon completion of the [REDACTED] ⁽¹⁾		
	Series Angel	Series A	Series B	Series B+	Series C	Aggregate ownership and voting rights percentage (%)		Aggregate ownership and voting rights percentage (%)		
	Ordinary Shares	Preferred Shares	Preferred Shares	Preferred Shares	Preferred Shares	number of shares		number of Shares		
Funplus	34,169,799	-	-	-	-	-	34,169,799	23.67%	34,169,799	[REDACTED]%
Vanker	-	17,723,079	-	-	-	-	17,723,079	12.28%	17,723,079	[REDACTED]%
Fiery Dragon	4,990,370	-	-	-	-	-	4,990,370	3.46%	4,990,370	[REDACTED]%
Peerless Hero	10,006,722	-	-	-	-	-	10,006,722	6.93%	10,006,722	[REDACTED]%
Yun Qu	7,549,852	-	-	-	-	-	7,549,852	5.23%	7,549,852	[REDACTED]%
Galaxy Nebula Limited	4,971,252	-	-	-	-	-	4,971,252	3.44%	4,971,252	[REDACTED]%
Dream League Limited	-	10,440,854	-	-	-	-	10,440,854	7.23%	10,440,854	[REDACTED]%
Iridescent Rainbow Limited	752,860	-	-	-	-	-	752,860	0.52%	752,860	[REDACTED]%
Matrix Partners China V Hong Kong Limited	2,521,935	-	-	-	-	-	2,521,935	1.75%	2,521,935	[REDACTED]%
Matrix Partners China VI Hong Kong Limited	-	-	12,992,601	3,248,150	-	-	16,240,751	11.25%	16,240,751	[REDACTED]%
Skycus China Fund, L.P.	-	-	10,394,081	-	-	-	10,394,081	7.20%	10,394,081	[REDACTED]%
Duckling Fund, L.P.	-	-	-	9,744,451	-	-	9,744,451	6.75%	9,744,451	[REDACTED]%
Beautiful Success Holdings Limited	-	-	-	-	5,197,041	2,267,562	7,464,603	5.17%	7,464,603	[REDACTED]%
Image Frame Investment (HK) Limited	-	-	-	-	-	5,095,898	5,095,898	3.53%	5,095,898	[REDACTED]%
3W Global Fund	-	-	-	-	-	2,267,562	2,267,562	1.57%	2,267,562	[REDACTED]%
Investors taking part in the [REDACTED]	-	-	-	-	-	-	-	-	[REDACTED]	[REDACTED]%
Total	64,962,790	28,163,933	23,386,682	12,992,601	5,197,041	9,631,022	144,334,069	100.00%	[REDACTED]	100.00%

Notes:

- (1) Calculated after taking into account our shares to be issued pursuant to the [REDACTED], assuming the [REDACTED] is not exercised and without taking into account the Shares to be issued under the 2020 Plan.
- (2) For further details about our Shareholders, see the “– Our Structure Immediately Prior to the [REDACTED]” in this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

2020 GLOBAL EMPLOYEE INCENTIVE PLAN

Our Company adopted the 2020 Global Employee Incentive Plan on December 31, 2020. The purpose of the 2020 Global Employee Incentive Plan is to attract, motivate, retain and reward certain employees, directors, officers and certain other eligible persons of our Group. The principal terms of the 2020 Global Employee Incentive Plan are set out in the section headed “Appendix V – Statutory and General Information – D. Employee Incentive Plan” in this Document.

PRC REGULATORY REQUIREMENTS

Our PRC Legal Adviser has confirmed that the share transfers, reorganizations and acquisitions conducted in the PRC in respect of the PRC companies in our Group as described above have been properly and legally completed in accordance with PRC laws and regulations in all material respects.

M&A Rules

According to the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the STA, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by the PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Advisor is of the opinion that, based on its understanding of the current PRC laws and regulations, prior CSRC approval for this [REDACTED] is not required because (i) our wholly foreign-owned PRC subsidiaries were not established through a merger or acquisition of equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are the beneficial owners of our Company, and (ii) no provision in the M&A Rules clearly classifies contractual arrangements as a type of transaction subject to the M&A Rules. However, uncertainties still exist as to how the M&A Rules and other PRC laws and regulations will be interpreted and implemented or whether the relevant authorities would promulgate further requirements.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SAFE registration in the PRC

Pursuant to the Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“**SAFE Circular 37**”), promulgated by the SAFE and which became effective on July 14, 2014 and replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (“**SAFE Circular 75**”), (i) a PRC resident must register with the local SAFE branch in connection with their contribution of offshore assets or domestic enterprises’ equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting overseas investment or financing, and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties. In addition, the PRC subsidiaries of that Overseas SPV may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the Overseas SPV and its offshore subsidiary may be restricted in their ability to contribute additional capital to their PRC subsidiaries.

Pursuant to the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (“**SAFE Circular 13**”) promulgated by the SAFE and came into effect on June 1, 2015, the local banks would review and carry out foreign exchange registration under overseas direct investment directly, and SAFE and its local branches shall implement individual supervision over foreign exchange registration of overseas direct investment via the banks.

As advised by our PRC Legal Advisor, Mr. Song, Mr. Chen Guangyao and Mr. Qiu Zhizhao, who are PRC residents and indirectly hold Shares in our Company, have all completed their respective initial foreign exchange registration under the SAFE Circular 37 on July 9, 2019.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

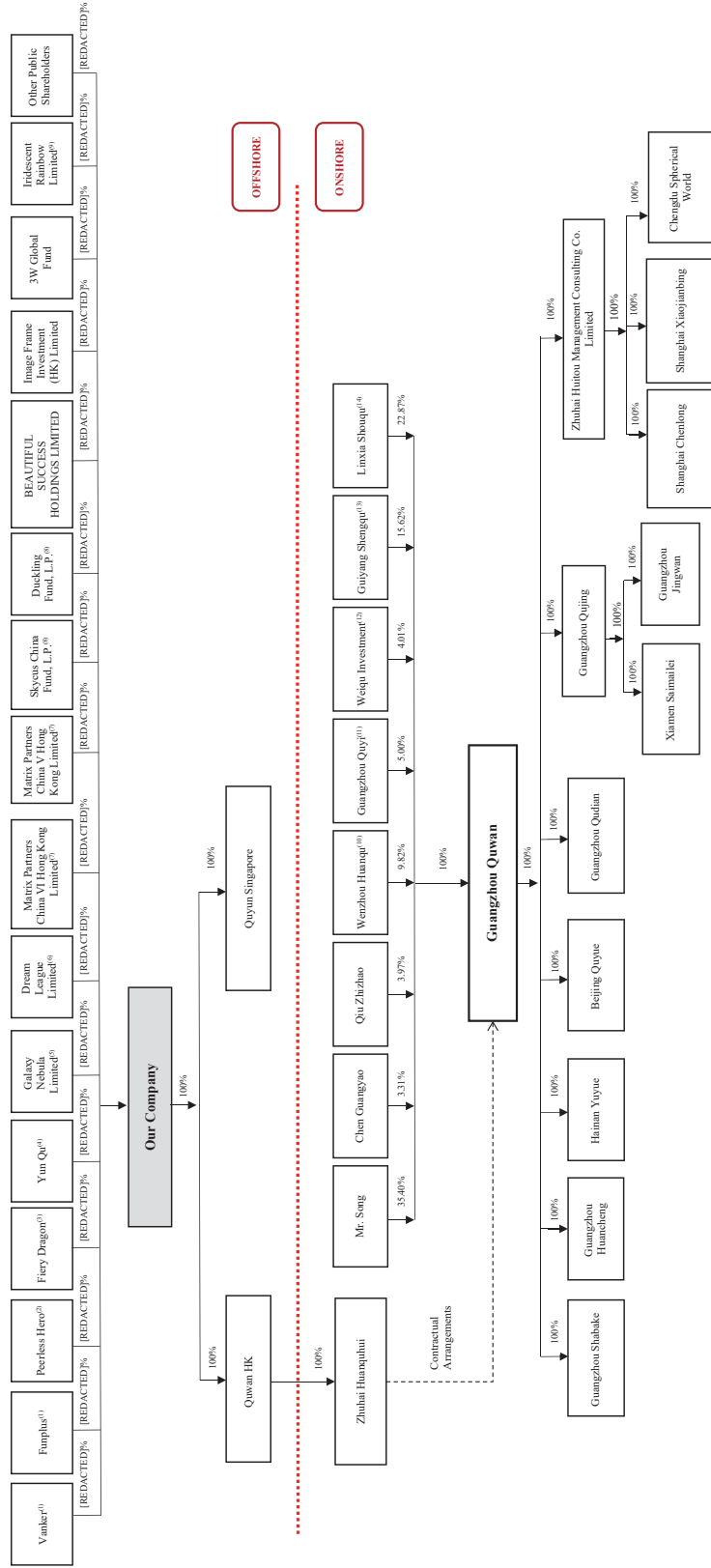
Notes:

- (1) Vanker and Funplus are wholly owned by Future Exploration, a limited liability company incorporated in the BVI on July 21, 2021 wholly owned by Cantrust (Far East) Limited. Cantrust (Far East) Limited is the trustee of SK Family Trust, a trust established by Mr. Song as the settlor, with Mr. Song and his family members being the beneficiaries.
- (2) Peerless Hero is wholly-owned by Mr. Chen Guangyao, our executive Director. On September 23, 2021, Mr. Song, Mr. Chen Guangyao and Peerless Hero entered into a voting proxy agreement, pursuant to which Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to all the Shares held by Peerless Hero. For details, please refer to section headed “Relationship with the Controlling Shareholders”.
- (3) Fiery Dragon is wholly-owned by Mr. Qiu Zhizhao. On September 23, 2021, Mr. Song, Mr. Qiu Zhizhao and Fiery Dragon entered into a voting proxy agreement, pursuant to which Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to all the Shares held by Fiery Dragon. For details, please refer to section headed “Relationship with the Controlling Shareholders”.
- (4) Yun Qu is wholly-owned by Mr. Du Guo, our executive Director. On September 23, 2021, Mr. Song, Mr. Du Guo and Yun Qu entered into a voting proxy agreement, pursuant to which Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to all the Shares held by Yun Qu. For details, please refer to section headed “Relationship with the Controlling Shareholders”.
- (5) Galaxy Nebula Limited, a company incorporated in the BVI, which is owned as to approximately 51.18% by Long Ling, approximately 48.62% by Kong Xiangyi and approximately 0.20% by Mr. Song. Each of Long Ling and Kong Xiangyi is an employee of our Group.
- (6) The equity interests of Dream League Limited were held as to 51.02% by Song Guowen, brother of Mr. Song, and 19.59% by Chen Fangping, 20.41% by Zhu Lin, and 8.98% by Zhang Dongmei, respectively. Each of Zhang Dongmei, Chen Fangping and Zhu Lin is an Independent Third Party.
- (7) Matrix Partners China VI Hong Kong Limited and Matrix Partners China V Hong Kong Limited are both ultimately controlled by Timothy A. Barrows, David Ying Zhang, David Su and Harry Ho Kee Man.
- (8) Skycus China Fund, L.P and Duckling Fund, L.P. are both ultimately controlled by Eric Li.
- (9) The shareholders of Iridescent Rainbow Limited are only entitled to the economic interests in the Shares held by Iridescent Rainbow Limited and the voting rights attached to such Shares shall be exercised by an entity nominated by Guangzhou Quwan.
- (10) Mr. Song, is the general partner of Wenzhou Huanqu. The limited partnership interests in Wenzhou Huanqu are held as to 99% by Mr. Song and 1% by Lin Binbin, who is an Independent Third Party, respectively.
- (11) Song Guowen, Mr. Song’s brother, is the general partner of Guangzhou Quyi. The limited partnership interests in Guangzhou Quyi are held as to 4% by Song Guowen, 17.6% by Zhang Dongmei, 38.4% by Chen Fangping, and 40% by Zhu Lin, respectively. Each of Zhang Dongmei, Chen Fangping and Zhu Lin is an Independent Third Party.
- (12) Mr. Song, is the general partner of Weiqu Investment. The limited partnership interests in Weiqu Investment are held as to 99% by Mr. Song and 1% by Chen Shaoyue, Mr. Song’s wife, respectively.
- (13) Mr. Song, is the general partner of Guiyang Shengqu. The limited partnership interests in Guiyang Shengqu are held as to 67.52% by Mr. Song, 8.47% by Mr. Qiu Zhizhao, 7.06% by Mr. Chen Guangyao, and 16.95% by Wenzhou Huanqu, respectively.
- (14) Mr. Song, is the general partner of Linxia Shouqu. The limited partnership interests in Linxia Shouqu are held as to 16.18% by Mr. Song, 24.44% by Mr. Chen Guangyao, 34.98% by Mr. Du Guo, 13.12% by Ms. Long Ling, and 11.28% by Mr. Kong Xiangyi, respectively. Each of Long Ling and Kong Xiangyi is an employee of our Group.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR STRUCTURE IMMEDIATELY FOLLOWING THE [REDACTED]

The following chart sets forth our simplified corporate and shareholding structure immediately following completion of the [REDACTED], assuming that all of the Preferred Shares have been converted into the Shares on a one-to-one basis and the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Global Employee Incentive Plan.



Note:

(1) Please refer to notes (1) to (14) in the section headed “Our Structure Immediately Prior to the [REDACTED]”.

CONTRACTUAL ARRANGEMENTS

OVERVIEW

Foreign investment activities in the PRC are mainly governed by the Provisions for Guiding the Foreign Investment Direction (《指導外商投資方向規定》) promulgated by the State Council, and the Industry Guidelines on Encouraged Foreign Investment (2020) (《鼓勵外商投資產業目錄(2020年版)》) and the Special Administrative Measures (Negative List) for the Access of Foreign Investments (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**Negative List**”) promulgated jointly by the MOFCOM and the NDRC (collectively, the “**Relevant PRC Regulations**”), pursuant to which the industries listed therein are divided into four categories in terms of foreign investment, namely, “encouraged”, “permitted”, “restricted” and “prohibited”. Under the Relevant PRC Regulations, foreign investors are prohibited from holding equity interests in an entity conducting radio and television program production and operation business, internet audio-visual programs services and internet culture activities (except for music), and are restricted to hold equity interest in an entity conducting value-added telecommunications services (except for e-commerce, domestic multiparty communication, storage-and-forward and call center services). A summary of our business that is subject to the foreign investment restriction and prohibition (the “**Relevant Business**”) in accordance with the Negative List is set out below:

Categories

Our Business

Prohibited

Radio and television program production and operation business

The business of Guangzhou Quwan and Guangzhou Shabake involves production and operation of audio content, which falls within the scope of radio and television program production and operation service (廣播電視節目製作經營業務) under the Regulations on the Administration of Production of Radio and Television Programs (《廣播電視節目製作經營管理規定》), which provides that any entity that engages in the production and operation of radio and television programs are required to apply for a Radio and Television Production Operation License (廣播電視節目製作經營許可證). Both Guangzhou Quwan and Guangzhou Shabake hold a Radio and Television Production Operation License. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in radio and television program production and operation business.

Prohibited

Internet audio-visual program services

The business of Huayu Tianxia involves provision of online audio content, which falls within the scope of internet audio-visual programs services (互聯網視聽節目服務) under the Administrative Provisions on Internet Audio-visual Program Service (《互聯網視聽節目服務管理規定》), which would require an Online Transmission of Audio-visual Programs License (the “**Audio-visual License**”) (信息網絡傳播視聽節目許可證). As of the Latest Practicable Date, Huayu Tianxia holds an Audio-visual License. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet audio-visual program services business.

CONTRACTUAL ARRANGEMENTS

Categories

Our Business

Prohibited

Internet culture activities

The business of Guangzhou Quwan and its major wholly-owned subsidiaries involves production, distribution and streaming of online audio content, online music and entertainment and online performance, which falls within the scope of internet cultural activities (互聯網文化活動) under the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》), the “Internet Culture Provisions”). The Internet Culture Provisions provides that internet cultural activities are classified into non-commercial internet cultural activities and commercial internet cultural activities, and the Internet Cultural Business License (the “ICB License”) (網絡文化經營許可證, 又稱文網文證) is normally required for conducting commercial internet cultural activities. As of the Latest Practice Date, each of Guangzhou Quwan, Guangzhou Shabake, Guangzhou Huancheng, Hainan Yuyue, Beijing Quyue, Guangzhou Qujing, Shanghai Chenlong, Shanghai Xiaojianbing and Chengdu Spherical World holds an ICB License. According to the Negative List, foreign investors are prohibited from holding equity interests in any enterprise engaging in internet culture activities (except for music).

Restricted

Value-added telecommunications services

The business of Guangzhou Quwan and its major wholly-owned subsidiaries involves operation, distribution and streaming of online audio content, online music and entertainment, online performance and online social networking business, which falls within the scope of internet information services and hence is captured by the “value-added telecommunications services” under the Telecommunications Regulations of the PRC (《中華人民共和國電信條例》), which would require an Internet Content Provider License (the “ICP License”) (增值電信業務經營許可證). According to the applicable PRC laws and regulations, foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting value-added telecommunications services (except for electronic commerce, domestic multi-party communication, store-and-forward and call center), and the major foreign investor in a foreign-invested telecommunications enterprise that is engaged in value-added telecommunications business shall have a record of good performance and operating experience in managing value-added telecommunications business. As of the Latest Practice Date, each) of Guangzhou Quwan, Guangzhou Shabake, Guangzhou Huancheng, Hainan Yuyue, Beijing Quyue, Shanghai Chenlong, Shanghai Xiaojianbing and Chengdu Spherical World holds an “ICP License”.

CONTRACTUAL ARRANGEMENTS

Categories

Our Business

As of the Latest Practice Date, Xiamen Saimailei and Guangzhou Jingwan do not hold an ICP License, and they in aggregate generated nil, nil, 1% and 1% of our Group’s total revenue for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively. Although they are not operating any websites, app or online platform at this stage, both companies above intend to further extend related value-added services based on their current offline esports teams operation, including online esports teams operation business and other relevant services, such as sale of esports team-related products via their websites. They have satisfied the requirements for ICP License application under the relevant laws and regulations and have been in the process of applying for the ICP License.

Our PRC Legal Advisor has conducted consultations with officers of (i) Industry Development Office, Bureau of Culture and Tourism of Guangdong Province (廣東省文化和旅遊廳產業發展處), (ii) Administrative Approval Office, Bureau of Tourism and Culture, Radio and Television and Sports of Hainan Province (海南省旅遊和文化廣電體育廳行政審批辦公室), (iii) Administrative Approval Office, Beijing Municipal Bureau of Culture and Tourism (北京市文化和旅遊局行政審批處), (iv) Market Management Office, Shanghai Municipal Bureau of Culture and Tourism (上海市文化和旅遊局市場管理處) and (v) Market Management Office, Sichuan Province Bureau of Culture and Tourism (四川省文化和旅遊廳市場管理處), who have provided confirmation that (i) they are the competent government authorities regulating internet culture activities and matters in connection with the ICB license; and (ii) foreign investors are not allowed to invest in the enterprise engaging in any internet cultural activity and hold the ICB License via equity interest ownership in practice.

Our PRC Legal Advisor has conducted a consultation with the officer of the Information and Communication Administration, Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部信息通信管理局) (“MIIT”), who has provided confirmation that among others, (i) MIIT is the competent government authority regulating the value-added telecommunication industry; (ii) foreign investors are not allowed to hold more than 50% equity interests in any enterprise conducting the business of internet information services, and the foreign investors needs to demonstrate that its business nature is consistent with the scope of ICP License in addition to the percentage of equity interest ownership requirement for application of ICP License; (iii) whether a foreign-invested enterprise can obtain an ICP License requires discretion and judgment on a case-by-case basis in practice, there could be impediment for foreign investors to invest in the internet information service enterprises mainly engage in the streaming of online audio content and online social networking business through equity interest ownership; (iv) no ICP License is required for Xiamen Saimailei and Guangzhou Jingwan at this stage, and the ICP License will be required for their future online esports teams operation business and other relevant services, such as sale of esports team-related products via their websites; and (v) Xiamen Saimailei and Guangzhou Jingwan will be granted ICP License after the application materials they submitted have been reviewed by the relevant regulatory authorities and are deemed by such regulatory authorities as having satisfied the requirements for ICP License under the relevant laws and regulations.

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Based on the above consultation with MIIT, our PRC Legal Advisor has advised that there will be no material legal impediment for Xiamen Saimailei and Guangzhou Jingwan to obtain such ICP License as long as they have satisfied the requirements and adhere to the procedures under the relevant laws and regulations as required by the relevant regulatory authorities.

In order to comply with the PRC laws and regulations and maintain effective control over the Relevant Business, on November 3, 2020, our wholly-owned subsidiary, Zhuhai Huanquhui entered into various agreements (later amended and restated on October 11, 2021) that constituted the Contractual Arrangements with Guangzhou Quwan, the Registered Shareholders (i.e. the shareholders of Guangzhou Quwan) and the general partners of the Partnership Shareholders (as defined below), pursuant to which Zhuhai Huanquhui acquired effective control over the finance and operations of our Consolidated Affiliated Entities and is entitled to all the economic benefits derived from their operations. In light of the foregoing reasons, we believe that the Contractual Arrangements are narrowly tailored as they are used to enable our Group to conduct businesses in a field that is subject to foreign investment prohibitions in the PRC.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into among Zhuhai Huanquhui, Guangzhou Quwan, and the Registered Shareholders; (ii) by entering into the Exclusive Technical Service Agreement (as defined below) with Zhuhai Huanquhui, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the [REDACTED]; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

We will unwind and terminate the Contractual Arrangements wholly or partially once the Relevant Business are no longer prohibited or restricted from foreign investment. We will directly hold the maximum percentage of ownership interests permissible under the relevant PRC laws and regulations if such businesses are allowed to be conducted by foreign investment entities under the relevant PRC laws and regulations.

Other Entities

Each of Guangzhou Qudian, Zhuhai Huitou Management Consulting Co., Ltd (珠海慧投资管理諮詢有限公司), Huayu Shiji and Yitian Lianxun do not hold specific foreign restricted/prohibited license and they have not yet commenced substantive business operations.

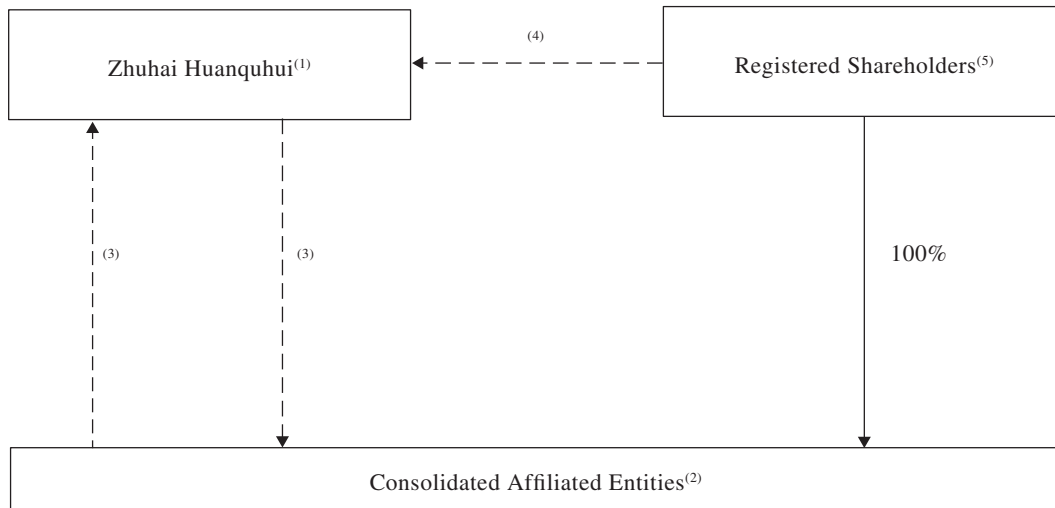
The entities above are not expected to commence any substantive business operations by the time of the [REDACTED]. We will undertake to procure these entities not to conduct any businesses that are not subject to foreign investment restrictions or prohibitions, and to the extent that any of these entities does, we will transfer such entity outside of the Contractual Arrangements prior to engaging in any unrestricted businesses.

Based on the above and considering that the entities above did not generate revenues during the Track Record Period, the Company controls these entities through the Contractual Arrangements.

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The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements after completion of the Reorganization:



“_____” Denotes legal and beneficial ownership in the equity interest

“-----” Denotes the Contractual Arrangements

Notes:

- (1) As of the Latest Practicable Date, Zhuhai Huanquhui is wholly-owned by Quwan HK, which is in turn wholly-owned by our Company.
- (2) As of the Latest Practicable Date, our Consolidated Affiliated Entities include Guangzhou Quwan and its subsidiaries, Guangzhou Shabake, Guangzhou Huancheng, Hainan Yuyue, Beijing Quyue, Guangzhou Qudian, Guangzhou Qujing, Xiamen Saimailei, Guangzhou Jingwan, Zhuhai Huitou Management Consulting Co., Ltd (珠海慧投管理諮詢有限公司), Shanghai Xiaojianbing, Shanghai Chenlong, Chengdu Spherical World, Huayu Shiji, Yitian Lianxun and Huayu Tianxia.

For further details of the subsidiaries of Guangzhou Quwan, see the section headed “History, Reorganization and Corporate Structure”.

- (i) Guangzhou Shabake, Guangzhou Huancheng, Hainan Yuyue, Beijing Quyue, Guangzhou Qudian, Guangzhou Qujing, and Zhuhai Huitou Management Consulting Co., Ltd and Huayu Shiji are directly wholly-owned by Guangzhou Quwan.
- (ii) Shanghai Xiaojianbing, Shanghai Chenlong and Chengdu Spherical World are wholly-owned by Zhuhai Huitou Management Consulting Co., Ltd.
- (iii) Xiamen Saimailei and Guangzhou Jingwan are wholly-owned by Guangzhou Qujing.
- (iv) Yitian Lianxun is wholly-owned by Huayu Shiji.
- (v) Huayu Tianxia is wholly-owned by Yitian Lianxun.

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- (3) Zhuhai Huanquhui provides consultancy, technology and other services in exchange for service fees from Guangzhou Quwan. See “Contractual Arrangements – Exclusive Technical Service Agreement”.

The Registered Shareholders and the general partners of the Partnership Shareholders executed the Exclusive Call Option Agreement (as defined below) in favor of Zhuhai Huanquhui for the acquisition of 100% equity interests and/or assets in Guangzhou Quwan. See “Contractual Arrangements – Exclusive Call Option Agreement”.

- (4) The Registered Shareholders pledged as first charge all of their respective equity interests in Guangzhou Quwan to Zhuhai Huanquhui as security for their respective performance and the performance of Guangzhou Quwan under the Exclusive Technical Service Agreement (as defined below), the Exclusive Call Option Agreement (as defined below), the Equity Pledge Agreements (as defined below) and the Shareholder Voting Rights Proxy Agreement (as defined below), as applicable. See “Contractual Arrangements – Equity Pledge Agreements”.

The Registered Shareholders executed the Powers of Attorney in favor of Zhuhai Huanquhui in respect of their respective rights as shareholders of Guangzhou Quwan.

- (5) Guangzhou Quwan is in turn owned by the Registered Shareholders, namely as to: (i) 35.40% by Mr. Song, our founder, chairman of our board of directors and Chief Executive Officer; (ii) 22.87% by Linxia Shouqu, a limited partnership organized in the PRC and an affiliate of Galaxy Nebula Limited, which is a holder of our ordinary shares, and the general partner of which is Mr. Song; (iii) 15.62% by Guiyang Shengqu, a limited partnership organized in the PRC, the general partner of which is Mr. Song; (iv) 9.82% by Wenzhou Huanqu, a limited partnership organized in the PRC majority owned by Mr. Song, the general partner of which is Mr. Song; (v) 5.00% by Guangzhou Quyi, a limited partnership organized in the PRC and an affiliate of Dream League Limited, which is a holder of our Series Angel preferred shares, and the general partner of which is Mr. Song Guowen, who is the brother of Mr. Song; (vi) 4.01% by Weiqu Investment, a limited partnership organized in the PRC majority owned by Mr. Song and in which he is the general partner; (vii) 3.97% by Mr. Qiu Zhizhao; and (viii) 3.31% by Mr. Chen Guangyao, our executive Director (The limited partnership Registered Shareholders as referred in aforementioned items (ii) to (vi), collectively as “**Partnership Shareholders**”).

Exclusive Technical Service Agreement

Zhuhai Huanquhui and Guangzhou Quwan entered into the exclusive technical service agreement on November 3, 2020 and an amended and restated exclusive technical service agreement on October 11, 2021 (the “**Exclusive Technical Service Agreement**”), pursuant to which Guangzhou Quwan agreed to engage Zhuhai Huanquhui as its exclusive provider of consulting, technical support and other related services including but not limited to (i) assisting Guangzhou Quwan to devise the management and operation plan, (ii) providing assistance to Guangzhou Quwan in department settings and business segmentation, (iii) assisting Guangzhou Quwan to build up the flow of business management, (iv) providing management and consultation in relation to daily operation, finance, investment, asset, indebtedness, human resources, and internal information exchange, (v) consultation and recommendation in relation to the assets and business operation of Guangzhou Quwan, (vi) consultation and recommendation in relation to merger, acquisition and other expansion plan of Guangzhou Quwan, (vii) assisting Guangzhou Quwan to devise the market development plan, (viii) conducting specific industry and market research in relation to Guangzhou Quwan, (ix) licensing Guangzhou Quwan to use the relevant software necessary to conduct its business, (x) offering Guangzhou Quwan the right to use the computer and internet hardware necessary to conduct its business, (xi) providing Guangzhou Quwan comprehensive solution in relation to information technology, (xii) daily management, maintenance and updating of hardware and database and relevant application software, (xiii) providing training to personnel who is

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involved in development and operating the mobile application, (xiv) assisting Guangzhou Quwan in technology information collection and market studies and (xv) providing technical and consultation services as requested by Guangzhou Quwan and agreed by Zhuhai Huanquhui from time to time.

Pursuant to the Exclusive Technical Service Agreement, Guangzhou Quwan shall pay Zhuhai Huanquhui annual service fee which shall be in the amount equivalent to the audited profit before tax of Guangzhou Quwan (net of costs and expenses) in accordance with the Chinese Accounting Standards.

In addition, pursuant to the Exclusive Technical Service Agreement, without the prior consent written of Zhuhai Huanquhui, during the term of the Exclusive Technical Service Agreement, Guangzhou Quwan shall not enter into any agreement to accept any same or similar service provided by any third party.

The Exclusive Technical Service Agreement also provides that Zhuhai Huanquhui has the exclusive proprietary rights and interests in any and all intellectual property rights created or developed by our Consolidated Affiliated Entities during the performance of the Exclusive Technical Service Agreement.

Under the Exclusive Technical Services Agreement, Guangzhou Quwan shall, among others, (i) subject to the relevant PRC laws and regulations, appoint the person recommended by Zhuhai Huanquhai as directors, supervisors and senior management members of Guangzhou Quwan, and shall not remove such directors, supervisors and senior management members recommended by Zhuhai Huanquhai without the prior written consent of Zhuhai Huanquhai or unless statutorily required; (ii) allow Zhuhai Huanquhai to inspect their accounts, and provide other information relating to their operation, customers, financial information and employees; (iii) take reasonable action during the term of the Exclusive Technical Services Agreement to ensure the validity and effectiveness of the relevant licenses and qualification necessary to conduct its business and accept reasonable advice and recommendation from Guangzhou Quwan.

Unless otherwise agreed pursuant to the agreement, the Exclusive Technical Services Agreement will remain effective until (i) both Guangzhou Quwan and Zhuhai Huanquhai agree to terminate the agreement in writing or (ii) all equity interests in Guangzhou Quwan held by the Registered Shareholders or assets of Guangzhou Quwan are transferred or assigned to Zhuhai Huanquhui or its designated person (including but not limited to Zhuhai Huanquhui and/or its directors, successors or liquidators).

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Shareholder Voting Rights Proxy Agreement and Powers of Attorney

On November 3, 2020, Zhuhai Huanquhui entered into the shareholder voting rights proxy agreement with the Registered Shareholders and Guangzhou Quwan, and the powers of attorney were executed by each of the Registered Shareholders in favor of Zhuhai Huanquhui. On October 11, 2021, Zhuhai Huanquhui entered into an amended and restated shareholder voting rights proxy agreement (the “**Shareholder Voting Rights Proxy Agreement**”) with Guangzhou Quwan, the Registered Shareholders and the general partners of the Partnership Shareholders, and each of the Registered Shareholders executed an amended and restated power of attorney (the “**Powers of Attorney**”), pursuant to which the Registered Shareholders irrevocably entrust Zhuhai Huanquhui or its designated person (including but not limited to the directors of Zhuhai Huanquhai and/or its the offshore parent company of Zhuhai Huanquhui and liquidators and other successors replacing such directors) to exercise all rights of the holders of equity interest of Guangzhou Quwan according to the then valid articles of association of Guangzhou Quwan, including but not limited to the rights:

- (i) to attend shareholders’ meeting;
- (ii) to exercise voting rights on any matters requiring discussion and decision of shareholders, sign any resolutions or minutes and file documents with the relevant company registry;
- (iii) to convene extraordinary general meeting;
- (iv) to exercise all shareholders’ voting rights pursuant to the relevant PRC laws and regulations; and
- (v) any other shareholders’ rights under the articles of association of Guangzhou Quwan (including any other shareholders’ voting rights as set out in the articles amended from time to time).

The Shareholder Voting Rights Proxy Agreement shall remain effective from the date of signing until being terminated by Zhuhai Huanquhui with written notice or terminated unilaterally by Zhuhai Huanquhai in the event that the Registered Shareholders or Guangzhou Quwan is in default and such default is not rectified within 10 days after notice of non-defaulting party for rectification. In the event that any of the Registered Shareholders transfers all of his/her/its equity interests in Guangzhou Quwan with prior consent of Zhuhai Huanquhai, such Registered Shareholders shall cease to be party to the Shareholder Voting Rights Proxy Agreement but the obligations of the other parties to the Shareholder Voting Rights Proxy Agreement shall not be affected.

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The Registered Shareholders undertake that the authorization and entrustment under the Shareholder Voting Rights Proxy Agreement will not cause any actual or potential conflict of interest with Zhuhai Huanquhui and/or its trustees. If there is any conflict of interest between (i) the Registered Shareholders and Guangzhou Quwan and (ii) Zhuhai Huanquhai, the direct or indirect offshore parent company of Zhuhai Huanquhai and the entity controlled by the direct or indirect offshore parent company of Zhuhai Huanquhai, the Registered Shareholders shall prioritize to protect and hold harmless of the interests of Zhuhai Huanquhui, the direct or indirect offshore parent company of Zhuhai Huanquhai and the entity controlled by the direct or indirect offshore parent company of Zhuhai Huanquhai. The Registered Shareholders shall not take or omit to take any actions which may cause a conflict of interest with Zhuhai Huanquhui or its shareholders, nor shall him, her or it execute any agreement or make any relevant commitments which will create conflict of interest with any agreement signed or being performed by Guangzhou Quwan, Zhuhai Huanquhui or its designated person(s).

The general partners of Partnership Shareholders (i) acknowledged that the arrangement contemplated under the Shareholder Voting Rights Proxy Agreement shall be legally binding on the Partnership Shareholders; (ii) agreed to procure the Partnership Shareholders to comply with the terms of the Shareholder Voting Rights Proxy Agreement; and (iii) agreed that their decision-making in connection with the disposal of the Partnership Shareholders’ interests in Guangzhou Quwan and shall be in accordance with the terms of the Shareholder Voting Rights Proxy Agreement.

Exclusive Call Option Agreement

Zhuhai Huanquhui, Guangzhou Quwan and the Registered Shareholders entered into an exclusive call option agreement on November 3, 2020. On October 11, 2021, Zhuhai Huanquhui entered into an amended and restated exclusive call option agreement (the “**Exclusive Call Option Agreement**”) with Guangzhou Quwan, Registered Shareholders and the general partners of the Partnership Shareholders, pursuant to which subject to the extent permitted under PRC laws, (i) each of the Registered Shareholders irrevocably grants an exclusive option to Zhuhai Huanquhui which entitles Zhuhai Huanquhai to request all or any of the Registered Shareholders to transfer their equity interests in Guangzhou Quwan to Zhuhai Huanquhui or its designated person under Zhuhai Huanquhui’s instruction and (ii) Guangzhou Quwan irrevocably grants an exclusive option to Zhuhai Huanquhui which entitles Zhuhai Huanquhui to elect to purchase from Guangzhou Quwan all or part of the assets of Guangzhou Quwan itself or through its designated person(s).

The general partners of Partnership Shareholders (i) acknowledged that the arrangement contemplated under the Exclusive Call Option Agreement shall be legally binding on the Partnership Shareholders; (ii) agreed to procure the Partnership Shareholders to comply with the terms of the Exclusive Call Option Agreement; and (iii) agreed that their decision-making in connection with the disposal of the Partnership Shareholders’ interests in Guangzhou Quwan shall be in accordance with the terms of the Exclusive Call Option Agreement and the Equity Pledge Agreements (as defined below).

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The purchase price payable by Zhuhai Huanquhui or its designated person(s) in respect of the transfer equity interest or assets shall be at nominal consideration or the lowest price permitted by applicable PRC laws and regulations. Guangzhou Quwan and the Registered Shareholders shall, subject to the relevant PRC laws and regulations, return to Zhuhai Huanquhui or its designated person(s) the purchase price in full in the event that Zhuhai Huanquhui exercises the exclusive options to acquire the equity interest and/or assets of Guangzhou Quwan.

Pursuant to the Exclusive Call Option Agreement, the Registered Shareholders covenant, among other things that, without the prior written consent of Zhuhai Huanquhui:

- (i) they shall not sell, transfer, pledge or dispose legal or beneficial interest in Guangzhou Quwan, or impose any encumbrances on such rights and interests;
- (ii) they shall increase or decrease the registered share capital of Guangzhou Quwan or in any way alter its existing equity structure at the time of signing of the Exclusive Call Option Agreement;
- (iii) they shall not transfer, mortgage or in any other form, dispose of or procure the management of Guangzhou Quwan to transfer, mortgage or dispose of any assets, legitimate income and benefits of Guangzhou Quwan in any other form (other than in the ordinary course of business, and to Zhuhai Huanquhui and/or the designated person(s));
- (iv) they shall not terminate or procure the management of Guangzhou Quwan to terminate any material contract entered into by Guangzhou Quwan or any other agreement that conflicts with any existing material contract;
- (v) they shall not appoint or replace the directors, supervisors or other management members of Guangzhou Quwan which shall be appointed by the Registered Shareholders;
- (vi) they shall not procure or consent to Guangzhou Quwan's declaration of or actual distribution of any distributable profits or dividends;
- (vii) they shall prudently and effectively operate the business and affairs of Guangzhou Quwan based on good financial and business standard, and ensure Guangzhou Quwan to maintain effective existence, and not be terminated, liquidated or dissolved;
- (viii) they shall not procure or consent to Guangzhou Quwan to amend its business scope, articles of association, increase or decrease its registered capital or change its registered capital structure in any other manner;

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- (ix) they shall ensure that Guangzhou Quwan does not incur any debts, provide guarantees or other forms of security, or assume any material obligations outside its ordinary course of business (other than debts incurred in the ordinary course of business or debts which have been disclosed to Zhuhai Huanquhui and with the written consent of Zhuhai Huanquhui); or
- (x) they shall ensure that Guangzhou Quwan does not merge with any person/entity, purchase assets, equity or invests in any person/entity in any manner.

Pursuant to the Exclusive Call Option Agreement, Guangzhou Quwan covenants, among other things that, without the prior written consent of Zhuhai Huanquhui, it shall not:

- (i) amend its articles of association, increase or decrease its registered capital or in any way alter its existing equity structure at the time of the signing of the Exclusive Call Option Agreement;
- (ii) assist or permit the Registered Shareholders shall not sell, transfer, pledge or dispose legal or beneficial interest in Guangzhou Quwan, or impose any encumbrances on such rights and interests;
- (iii) terminate any material contracts entered into by Guangzhou Quwan or enter into any other agreement in conflict with any existing material contract;
- (iv) conduct liquidation, dissolution or declaration of termination;
- (v) merge with, purchase, or otherwise invest in any person's assets, equity; and
- (vi) incur any debts, provide guarantees or other forms of security, or assume any material obligations outside its ordinary course of business.

Guangzhou Quwan has further covenanted that:

- (i) without prior written consent of Zhuhai Huanquhui, Guangzhou Quwan shall not distribute any dividend or profits to the Registered Shareholders. In the event that the Registered Shareholders receive any profit distribution or dividend from Guangzhou Quwan, the Registered Shareholders must immediately pay or transfer such amount to Zhuhai Huanquhui;
- (ii) they shall immediately notify Zhuhai Huanquhui of any lawsuits, arbitrations or administrative procedures relating to its shares or assets which have occurred or may occur; and
- (iii) they shall abide strictly by the Contractual Arrangements, perform the obligations under such agreements effectively, and not take any actions or omissions which may adversely affect the validity and enforceability of such agreements.

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Unless otherwise agreed pursuant to the agreement, the Exclusive Call Option Agreement will remain effective until all equity interests in Guangzhou Quwan held by the Registered Shareholders are transferred or assigned to Zhuhai Huanquhui or its designated person.

Equity Pledge Agreements

Zhuhai Huanquhui entered into an equity pledge agreement with Guangzhou Quwan and, each of the Registered Shareholders on November 3, 2020. On October 11, 2021, Zhuhai Huanquhui entered into amended and restated equity pledge agreements (the “**Equity Pledge Agreements**”) with Guangzhou Quwan, each of the Registered Shareholders and the general partners of the Partnership Shareholders, pursuant to which each of the Registered Shareholders agreed to pledge their respective equity interest in Guangzhou Quwan to Zhuhai Huanquhui to secure performance of (i) the contractual obligations of Guangzhou Quwan under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of the relevant Registered Shareholders under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Equity Pledge Agreements and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Equity Pledge Agreements.

The general partners of Partnership Shareholders (i) acknowledged that the arrangement contemplated under the Equity Pledge Agreements shall be legally binding on the Partnership Shareholders; (ii) agreed to procure the Partnership Shareholders to comply with the terms of the Equity Pledge Agreements; and (iii) agreed that their decision-making in connection with the disposal of the Partnership Shareholders’ interests in Guangzhou Quwan shall be in accordance with the terms of the abovementioned Exclusive Call Option Agreement, Shareholder Voting Rights Proxy Agreement, Powers of Attorney, Equity Pledge Agreements and other supplemental agreements.

Under the Equity Pledge Agreements, each of the Registered Shareholders agreed that, the rights of Zhuhai Huanquhui with respect to the pledge thereunder shall not be interrupted or impacted by the Registered Shareholders or its successors, heirs or representatives, or any other persons through any legal proceedings. If Guangzhou Quwan declares any dividend during the term of the pledge, Zhuhai Huanquhui is entitled to receive all such dividends distributed on the pledged equity interest, if any. In addition, pursuant to the Equity Pledge Agreements, each of the Registered Shareholders have undertaken to Zhuhai Huanquhui, among other things, not to transfer or pledge their respective equity interest in Guangzhou Quwan without the prior written consent of Zhuhai Huanquhui.

The Equity Pledge Agreements take effect upon the completion of signing and recording the share pledge in the register of members and shall remain valid until after, amongst others: all the contractual obligations under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Equity Pledge Agreements and payment obligations arising out of or in relation to the Exclusive Technical

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Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Equity Pledge Agreements are satisfied in full. As of the Latest Practicable Date, we have registered the share pledge with the relevant PRC governmental authority in accordance with PRC laws and regulations.

If Guangzhou Quwan or any of its shareholders breaches its contractual obligations, Zhuhai Huanquhui is entitled to certain rights regarding the pledged equity interests, including the right to receive proceeds from the auction or sale of all or part of the pledged equity interests of Guangzhou Quwan in accordance with PRC law.

Spousal Consent Letter(s)

Each of the spouses of Mr. Song Ke, Mr. Qiu Zhizhao, Mr. Chen Guangyao and general partners of Partnership Shareholders has signed a spousal consent (collectively, the “**Spousal Consent Letter(s)**”). Under each of the Spousal Consent Letters, each spouse agreed that the disposition of the equity interest in Guangzhou Quwan which is held by their respective spouse shall be made pursuant to the abovementioned Exclusive Call Option Agreement, Shareholder Voting Rights Proxy Agreement, Powers of Attorney, Equity Pledge Agreements and other supplemental agreements, as executed from time to time. The signing spouses also agree that: (i) any equity interests held by their respective spouse in Guangzhou Quwan do not fall within the scope of their communal properties; (ii) each of them will not take any measures that are in conflict with the Contractual Arrangements, including any claims on the interests through legal proceedings; and (iii) each of them will take any necessary measures to procure that the Contractual Arrangements are properly performed.

Dispute Resolution

In the event of any dispute with respect to the construction and performance of the provisions, each of the Contractual Arrangements stipulates that:

- (i) the parties shall first resolve the dispute through friendly negotiations;
- (ii) in the event the parties fail to reach an agreement on the dispute within 30 days following a negotiation request, any party may submit the relevant dispute to the Guangzhou Arbitration Commission (廣州仲裁委員會), in accordance with the then effective arbitration rules of the arbitration commission. The arbitration award shall be final and binding on all parties;
- (iii) the arbitral tribunal may award remedies over the equity interest, assets or property rights of our Consolidated Affiliated Entities, injunctive relief (for conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; and

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- (iv) the courts of competent jurisdictions shall have the power to grant interim remedies before making a final ruling on the dispute. The courts of Hong Kong, the Cayman Islands or other courts with jurisdiction, including but not limited to the PRC, being the place where our Consolidated Affiliated Entities were established or the place where the principal assets of Guangzhou Quwan and our Consolidated Affiliated Entities are located shall be considered as having jurisdiction for the above purposes.

However, our PRC Legal Advisor has advised that the above provisions may not be enforceable under the PRC laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current PRC laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC.

As a result of the above, in the event that our Consolidated Affiliated Entities or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. For further details, please see the section headed “Risk Factors – Risks related to Our Corporate Structure” in this Document.

Succession

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholders. Under the succession laws of the PRC, for individual Registered Shareholders, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. For corporate Registered Shareholders, the successors include any subsequent entities or liquidators (as applicable) taking control of the company. In case of a breach, Zhuhai Huanqunhui can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Registered Shareholders shall inherit any and all rights and obligations of the Registered Shareholders under the Contractual Arrangements as a result of their death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect their exercise of equity interest in Guangzhou Quwan as if the inheritor was a signing party to such Contractual Arrangements.

Pursuant to the Power of Attorney, the Registered Shareholders undertake to Guangzhou Quwan, that, in the event of death, incapacity, marriage, divorce, bankruptcy or other circumstances (as applicable) that could possibly affect the exercise or fulfillment of the rights and obligations of the Registered Shareholders as a shareholder of Guangzhou Quwan, his, her, its or their successor will be deemed as the signing party to the Contractual Arrangements and shall assume all the rights and obligations of the relevant Registered Shareholders.

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Conflicts of Interests

Each of the Registered Shareholders has given its/his irrevocable undertakings in the Shareholder Voting Rights Proxy Agreement which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, please see “– Shareholder Voting Rights Proxy Agreement and Powers of Attorney” in this section.

Loss Sharing

None of the agreements constituting the Contractual Arrangements nor the PRC laws provide or require that our Company or Zhuhai Huanquhui, is obligated to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are companies with limited liabilities and shall be solely liable for their own debts and losses with assets and properties owned by them.

Despite the foregoing, given that our Group conducts the Relevant Business in the PRC through our Consolidated Affiliated Entities which hold the requisite PRC licenses and approvals, and that their financial position and results of operations are consolidated into our Group’s financial information under the applicable accounting principles, our Company’s business, financial condition and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses. Therefore, the provisions in the Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on Zhuhai Huanquhui and our Company resulting from any loss suffered by our Consolidated Affiliated Entities.

Insurance

Our Company does not maintain any insurance policy to cover the risks relating to the Contractual Arrangements.

Company’s Confirmation

As of the Latest Practicable Date, our Company had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

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EFFECT OF THE CONTRACTUAL ARRANGEMENTS

We believe that the Contractual Arrangements provide a mechanism that enables us to exercise effective control over our Consolidated Affiliated Entities, and is narrowly tailored to achieve our business purposes and to protect and safeguard the interests of our Company and our future public shareholders in the event of any dispute between us, our Consolidated Affiliated Entities and the Registered Shareholders for the following reasons:

- (i) the arrangement under the Exclusive Technical Service Agreement will ensure that all economic benefits generated from the operations of Guangzhou Quwan will flow to Zhuhai Huanquhui whilst ensuring compliance with applicable PRC laws and regulations and the ability to conduct the Relevant Business which is prohibited from foreign investors, foreign-owned or invested entities, and hence, is in the best interest of our Group as a whole. The delineation of the assets and staffing between Zhuhai Huanquhui, which shall be responsible for driving key business decision-making process and provide overall business advice and consulting services, and Guangzhou Quwan, which shall be responsible for the operations of the Relevant Business in compliance with relevant PRC laws and regulations, would allow a proper discharge of the respective responsibilities of Zhuhai Huanquhui and Guangzhou Quwan under the Contractual Arrangements and also ensure sound and effective operation of our Relevant Business in compliance with the Contractual Arrangements and applicable laws and regulations;
- (ii) under the Exclusive Call Option Agreement, the Registered Shareholders and the general partners of Partnership Shareholders and Guangzhou Quwan have granted Zhuhai Huanquhui an irrevocable right to purchase 100% of their equity interest in Guangzhou Quwan and/or assets of Guangzhou Quwan, respectively. For further details, please see “– Exclusive Call Option Agreement” in this section. These provisions enable Zhuhai Huanquhui or its designated person(s) to act as the shareholder(s) of Guangzhou Quwan at its election and thereby ensuring that our Group will continue to maintain our interest in Guangzhou Quwan upon the exercise of the right pursuant to the Exclusive Call Option Agreement;
- (iii) under the Equity Pledge Agreements, the Registered Shareholders have provided the share pledge on its equity interest in Guangzhou Quwan in favor of Zhuhai Huanquhui. As of the Latest Practicable Date, the share pledge has been registered with the relevant PRC governmental authority. The registered pledge effectively prevents the Registered Shareholders from impeding the control of Zhuhai Huanquhui over Guangzhou Quwan by transferring their direct or indirect equity interests in Guangzhou Quwan to third parties without the knowledge or approval of Zhuhai Huanquhui;

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- (iv) under the Shareholder Voting Rights Proxy Agreement and Powers of Attorney, the Registered Shareholders and the general partners of Partnership Shareholders irrevocably appoint Zhuhai Huanquhui or its designated person(s) to exercise all the rights it has as the shareholders of Guangzhou Quwan. These provisions provide Zhuhai Huanquhui with the power to determine or change the composition of the board of directors and management team of Guangzhou Quwan at its election. Through Zhuhai Huanquhui, our Group will have the ability to control the management of Guangzhou Quwan without the need for further action or cooperation from the Registered Shareholders; and
- (v) under the Spousal Consent Letter(s), each of the spouses of the relevant individual Registered Shareholders and the general partners of Partnership Shareholders undertakes not to take any actions that are in conflicts with the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, our PRC Legal Advisor is of the view that:

- (i) the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto except in relation to the dispute resolution clause: the Contractual Arrangements provide that any dispute shall be submitted to the Guangzhou Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Guangzhou. They also provide that the arbitrator may award interim remedies over the shares or assets of Guangzhou Quwan or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and the PRC (being the place of major assets of our Company) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of Guangzhou Quwan. However, our PRC Legal Advisor has advised that tribunal normally would not grant such injunctive relief or order the winding-up of Guangzhou Quwan pursuant to current PRC laws. In addition, the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC;
- (ii) the execution and performance of the Contractual Arrangements would not be deemed as 'malicious collusion to damage the legitimate rights and interests of others' under PRC Civil Code;
- (iii) the execution and performance of the Contractual Arrangements do not violate the provisions of the articles of association of Zhuhai Huanquhui and Guangzhou Quwan;

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- (iv) the execution of the Contractual Arrangements does not require any approvals or authorizations from PRC governmental authorities, except that:
 - (a) the pledge of any equity interest in Guangzhou Quwan in favor of Zhuhai Huanquhui is subject to registration requirements with the relevant administration for market regulation;
 - (b) the exercise by Zhuhai Huanquhui of its option rights under the Exclusive Call Option Agreements to acquire all or part of the equity interests in Guangzhou Quwan is subject to the approval of, consent of, filing with and/or registration with PRC governmental authorities;
 - (c) the transfer of the equity interest in Guangzhou Quwan contemplated under the Contractual Arrangements is subject to applicable approval and/or registration requirements under the then applicable PRC laws; and
 - (d) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Contractual Arrangements are subject to applications to competent PRC courts for recognition and enforcement.

Our PRC Legal Advisor also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations and accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to or otherwise different from the above opinion. See “Risk factors – Risks related to Our Corporate Structure – If the PRC government deems that the Contractual Arrangements in relation to our Consolidated Affiliated Entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.” and “Risk factors – Risks related to Our Corporate Structure – We rely on Contractual Arrangements with Guangzhou Quwan and the Registered Shareholders to operate our business, which may not be as effective as direct ownership in providing operational control and could adversely affect our business, operating results and financial condition.”

Nevertheless, based on the foregoing, we believe that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable our Company to control our Consolidated Affiliated Entities that engage in the operation of our Principal Business where the PRC laws and regulations impose foreign ownership restrictions.

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Qualification Requirements under FITE Regulations

The Regulations on the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the “**FITE Regulations**”) further provides that a foreign major investor which invests in a foreign-invested telecommunications enterprise that is engaged in value-added telecommunications business in the PRC shall have a proven track record of good performance and operating experience in operating value-added telecommunications businesses (the “**Qualification Requirements**”). The foreign major investor that meet these Qualification Requirements invests in such foreign-invested telecommunications enterprise must obtain approvals from the MIIT which retain discretion in granting such approvals.

The MIIT issued a Service Guidance Memorandum on the Approval of Telecommunication Business License (《電信業務經營許可審批服務指南》) (“**Guidance Memorandum**”). According to this Guidance Memorandum, the foreign-invested telecommunications enterprise applicant is required to provide the proof of the satisfaction of the Qualification Requirements of the foreign major investor, such as a description of the value-added telecommunications services previously provided by such foreign major investor or its direct shareholder, supported by, among other things, screenshots or other supporting documents of license or filings previously obtained and well-known websites or apps previously operated, as well as previous telecommunication business licenses or other admission permit certificates issued by the relevant local authorities (unless where no license is required in the relevant jurisdiction). The Guidance Memorandum, however, does not provide any further clear interpretation on the Qualification Requirements or the relevant proof of the satisfaction of such Qualification Requirements.

Plan to comply with the Qualification Requirements

Notwithstanding the above, we have adopted a specific plan and will continue to expend genuine efforts and financial resources towards meeting the Qualification Requirements. We will remain abreast of any regulatory developments and continuously assess whether we meet the Qualification Requirements, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC Laws. For the purposes of meeting the Qualification Requirements, we have established and accumulated overseas operation experience, for example:

- (i) Quwan HK was incorporated in Hong Kong in June 2019 for the purpose of registering and holding overseas intellectual properties, promoting the Group’s service and businesses;
- (ii) through our overseas subsidiaries, we have been exploring business opportunities for overseas online gaming operation; and
- (iii) we are in the process of registering a number of overseas trademarks for the promotion of the Group’s services and businesses overseas.

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DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

The Foreign Investment Law

The PRC Foreign Investment Law (《中華人民共和國外商投資法》) (“FIL”) was adopted at the Second Session of the Thirteenth NPC on March 15, 2019 and came into force on January 1, 2020. The FIL replaced the Sino-Foreign Equity Joint Venture Law of the PRC (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Law of the PRC (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), and became the legal foundation for foreign investment in the PRC. For further details, please see the section headed “Regulations—Regulations Related to Foreign Investment” in this Document.

The FIL stipulates the implementation of the management systems of pre-establishment national treatment and “negative list” for foreign investment. The “negative list,” issued by or upon approval by the State Council, refers to special administrative measures for access of foreign investment in specific fields in the PRC. A foreign investor shall not invest in any field in the “negative list” which is prohibited from foreign investment. A foreign investor shall meet the investment conditions stipulated under the “negative list” for any field in the “negative list” which is restricted from foreign investment. Concerning fields not mentioned in the “negative list,” management shall be conducted under the principle of consistency between domestic and foreign investment. The FIL does not contain or quote the stipulation of the “negative list.”

The definition of “foreign investors” in the FIL includes foreign natural persons, enterprises and other organizations.

Moreover, the FIL does not stipulate that the “foreign investment” as defined thereunder shall include contractual arrangements. Instead, it adds a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes “investments through other means stipulated under laws or administrative regulations or by the State Council” without elaboration on “other means.”

Impact of FIL on Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Contractual Arrangements, to establish control of our Consolidated Affiliated Entities, through which we operate the Relevant Business in the PRC. The FIL stipulates four forms of foreign investment, but does not mention concept “actual control”, nor does it explicitly stipulate the contractual arrangements as a form of foreign investment. Besides, it does not explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Provided that no additional laws, administrative regulations, departmental rules or other regulatory documents on contractual arrangements has been issued and enacted, the coming into effect of the FIL does not, by itself, have any material adverse operational and financial impact on the legality and validity of our Contractual Arrangements.

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If the operation of our Relevant Business is not on the “negative list” and we can legally operate such businesses under PRC laws, Zhuhai Huanqunhui will exercise the option under the Exclusive Call Option Agreement to acquire the equity interest of our Consolidated Affiliated Entities and unwind the contractual arrangements subject to re-approval by the relevant authorities.

Furthermore, the FIL stipulates that foreign investment includes “foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council”. Although its implementing rules do not expressly stipulate the contractual arrangements as a form of foreign investment, there are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. Therefore, there is no guarantee that the Contractual Arrangements and the business of the Consolidated Affiliated Entities will not be materially and adversely affected in the future due to changes in PRC laws and Regulations. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the [REDACTED] of our Shares. For further details, please see the section headed “Risk Factors – Risks related to our Corporate Structure” in this Document.

Sustainability of our Relevant Business

If any ancillary regulations or implementation rules of the FIL and the negative list subsequently issued mandates further actions for us to retain the Contractual Arrangements, we will take all reasonable measures and actions to comply with the FIL or such ancillary regulations or implementation rules then in force and to minimize the adverse effect of such laws on our Company. However, there is no assurance that we can fully comply with such law. In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have material adverse effect on the trading of our Shares. If, after the [REDACTED], we fail to comply with the new foreign investment law as finally promulgated, we may be required to dispose of our Relevant Business operated through our Consolidated Affiliated Entities under the Contractual Arrangements or make necessary corporate structure adjustments so as to comply with the new foreign investment law as finally promulgated.

In the worst case scenario, if any new foreign investment law subsequently promulgated is refined or deviates from the FIL, resulting in the Contractual Arrangements becoming invalid and illegal, we may not be able to operate the Relevant Business through the Contractual Arrangements and may lose our rights to receive the economic benefits of the Consolidated Affiliated Entities and the financial results of the Consolidated Affiliated Entities may no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. If our Group does not receive any compensation, an investment loss would be recognized as a result of such derecognition.

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Nevertheless, considering that a number of existing entities are operating under contractual arrangements and some of which have obtained [REDACTED] status abroad, our Directors are of the view that it is unlikely, if any ancillary regulations or implementation rules of the FIL is promulgated, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. However, there is no guarantee that the PRC government will not take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them and make decisions according to different situations in practice.

Our Company will, after the [REDACTED], timely announce (i) any updates or material changes to any ancillary regulations or implementation rules of the FIL that will materially and adversely affect us as and when they occur and (ii) in the event that any ancillary regulations or implementation rules of the FIL or any new foreign investment law has been promulgated, a clear description and analysis of law, specific measures adopted by our Company to comply with the law, as well as its material impact on our business operation and financial position.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

According to IFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it 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. Although our Company does not directly or indirectly own our Consolidated Affiliated Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over our Consolidated Affiliated Entities.

Consolidation of financial results of our Consolidated Affiliated Entities

Under the Exclusive Technical Service Agreement, it was agreed that, in consideration of the services provided by Zhuhai Huanquhui, Guangzhou Quwan will pay services fees to Zhuhai Huanquhui. The service fee shall be paid annually and in the amount equivalent to the audited profit before tax of Guangzhou Quwan (net of costs and expenses) in accordance with the Chinese Accounting Standards. Guangzhou Quwan shall also allow Zhuhai Huanquhui to inspect their accounts, and provide other information relating to their operation, customers, financial information and employees. Accordingly, Zhuhai Huanquhui has the ability, at its sole discretion, to extract substantially all of the economic benefit of our Consolidated Affiliated Entities through the Exclusive Technical Service Agreement.

In addition, under the Exclusive Call Option Agreement, Zhuhai Huanquhui has absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as Zhuhai Huanquhui prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount to our Company.

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As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through Zhuhai Huanquhui and, at our Company’s sole discretion, and can receive substantially all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our Consolidated Affiliated Entities’ results of operations, assets and liabilities, and cash flows are consolidated into our Company’s financial information.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group’s financial information as if it was our Company’s subsidiary.

For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the revenue generated from the Consolidated Affiliated Entities (excluding intra-group transactions) was approximately RMB432.9 million, RMB836.3 million, RMB1,493.4 million and RMB1,173.1 million, representing approximately 100.0%, 100.0%, 100.0% and 99.97% of the consolidated revenue of our Group, respectively.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

- (i) as part of the internal control measures, major issues arising from the implementation of and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an continuous basis;
- (ii) our Board, particularly our independent non-executive Directors, will review the overall performance of and compliance with the Contractual Arrangements at least once a year, and we will disclose in our annual report our independent non-executive Directors’ confirmation;
- (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports and interim reports to update the Shareholders and potential [REDACTED];
- (iv) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding (a) our status of compliance with the FIL, and (b) the latest regulatory development in relation with the FIL;

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- (v) our Company will engage external legal advisors or other professional advisors, if necessary, to assist our Board to review the implementation of the Contractual Arrangements and both legal and compliance issues in relation to Zhuhai Huanquhui and our Consolidated Affiliated Entities in order to deal with specific issues or matters arising from the Contractual Arrangements;

- (vi) because the Contractual Arrangements will constitute continuing connected transactions of our Group following the completion of the [REDACTED], our Company has applied to the Stock Exchange, and the Stock Exchange has agreed to grant a waiver, details of which are set out in the section headed “Connected Transactions – Non-exempt Continuing Connected Transactions – Contractual Arrangements” in this Document. Our Company will comply with the conditions prescribed by the Stock Exchange under the waiver given; and

- (vii) our Group will adjust or unwind (as the case may be) the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Business to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations which allow the Relevant Businesses to be conducted and operated by our subsidiaries without such arrangements in place.

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OVERVIEW

Why We Created *TT Chat*

The internet has become an increasingly integral part of the rising generation’s daily lives with an increasing amount of their time spent online. This rising generation has strong and unique demands for online platforms that address their social and entertainment needs – where they can find a strong sense of companionship, build genuine relationships, and have fun in a vibrant, interactive community of like-minded friends.

This is what inspired us to create the *TT Chat* app, our flagship voice-based, gamer-centric social mobile app designed to make the process of building genuine and long-lasting connections among the rising generation easier and more joyful. As a social platform, *TT Chat* initially distinguished itself as a gamer-centric community that brought a massive base of game lovers together through its in-game interactive tools. Over time, we have grown *TT Chat* into a popular social entertainment platform offering highly interactive voice-based chatrooms and a variety of innovative entertainment features that transcend in-game communications and traditional live streaming entertainment.

What We Do

We are the largest voice-based mobile social platform and the largest gamer-centric mobile social platform in China in terms of average MAUs in the first half of 2021, according to Frost & Sullivan. With our diversified product features and functions, we encourage social interactions among our users, and through voice-based and other real-time forms of interactions and entertainment offerings, facilitate the creation of genuine and lasting social relationships.

We operate the *TT Chat* app, our flagship mobile app, with 16.2 million average MAUs in the first half of 2021. Through its interactive functions, *TT Chat* app encourages communications and promotes interactions for users across different demographics. Its core function matches users who may be originally unknown to each other based on their individual profiles and entertainment and social needs in a voice chat room setting, creating a socially engaging and fun experience with rich interactive features and entertainment scenarios. Among these scenarios, gaming is one attractive entry point given its popularity and cohesiveness among users. *TT Chat* app strives to improve the game co-experience for our users, through finding everyone the most suitable game buddies with the right levels of skills, playing styles and preferences, and other relevant game facilitation attributes. Our deep understanding of the rising generation and their broader social needs allows us to create a highly interactive social environment that encourages our users to explore new areas of interest through voiced-based social interactions.

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Our User Base

We have a fast-growing, large and highly engaged user base. Our users are tech savvy and constantly exploring new social connections with others with similar interests and passions. As of June 30, 2021, over 90% of our users were aged 30 or below based on information available to us. During the first half of 2021, our users spent an average of approximately 158 minutes every day in our voice chat rooms, and our users initiated over 850,000 voice chat rooms on average every day, which increased by 45.6% compared to the same period of 2020. In addition to voice chat rooms tailored for popular games, we offer casual games and other social entertainment scenarios on our platform for users to relax and socialize to further increase user time spent.

How We Generate Revenue

We primarily monetize our services through users’ consumption of virtual items sold on our *TT Chat* app as they interact with other users and hosts as well as membership subscriptions. Purchase and consumption scenarios are seamlessly integrated into the diversified social networking and entertainment features and functions on our platform, where users can purchase a diverse selection of virtual items and send them as gifts to others, to express themselves and deepen their social relationships with friends made on our platform. Such virtual items mainly include consumable virtual gifts to be presented to other users and privileges that allow the user to showcase their virtual identities in a voice chat room.

We take a portion of the virtual items’ value when users consume their virtual items on our platform. For details of how we recognize revenues under different scenarios, see “– Our Monetization.”

- We design certain types of our voice chat rooms with features and functions that encourage multi-way interactions among multiple users as well as between users and hosts, where our users can send virtual gifts to each other and to the hosts. Functions and features offered in such multi-way interaction scenarios are part of our value-added services.
- We also contract with hosts who broadcast entertainment contents mainly in audio streaming rooms to a large audience of users who can send virtual gifts to hosts to show their appreciation and support. Functions and features offered in such audio streaming scenarios are part of our audio entertainment services.

We have a balanced gender distribution among our paying users, approximately 43% of which were female in June 2021.

To elevate our brand and enhance our value propositions to our users, we also engage in other businesses, such as esports team operations, game distribution in China and voice-based social network operations in the overseas market, which also provide us with attractive monetization and marketing opportunities.

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Value Propositions to Our Community

We believe that China’s rising generations have strong desires for social connectedness and voice-based communication provides the best medium to connect these people with its unique humanness and higher communication efficiency than other formats such as the exchange of pictures, videos and text messages. Games offer a universal language that helps establish and deepen genuine relationships. The voice-based communications enabled by *TT Chat* app can be run seamlessly in parallel with games or other popular mobile apps, which greatly expands the use cases and scenarios for social interactions and entertainment.

We offer unique value propositions to all of our users throughout their journey on *TT Chat* app:

- *Deliver all-rounded social experiences:* Unlike other social entertainment platforms centered on a limited number of popular hosts or audio streamers, we have made *TT Chat* app a decentralized social destination that offers every user the excitement of meeting and playing with new friends in diverse social entertainment scenarios. Our advanced recommendation algorithms also match our users looking for socialization with other users with whom they are more likely to generate rapport. In our voice-based interactive entertainment scenarios, hosts on our platform stimulate more interactions among users, rather than performing a monolog. We believe these decentralized social interaction opportunities make us a preferred voice-based social destination and cultivate a welcoming environment that further drives user engagement.
- *Stimulate social interactions in diverse scenarios through voice chats:* We create diversified social entertainment scenarios such as online dating, karaoke, talk shows and role play dubbing, as well as various casual games to encourage deeper social engagement and emotional resonance among our users. Through our voice chat rooms and interactive functions, users are encouraged to establish their unique personal image and charm to attract new friends. For example, multi-player interactive games naturally create a constant demand for in-game instant communications and information exchanges through voice chats – the only form of communication compatible with fast-paced gameplay. Teamwork and chemistry are central to the game co-experience. Playing games together serves as a natural ice-breaking opportunity after users are connected for the first time. We adopt a sophisticated insight-driven approach to match users based on their levels of skills, playing styles and preferences, and other relevant game-centric attributes. Compared to in-game matching functions offered by game developers, we believe that our personalized matching and recommendation functions are more intelligent and effective in pairing the most suitable game buddies to drive a better gameplay experience. With the growing granular user data accumulated on our platform, our algorithms are becoming increasingly smarter through machine learning and are able to match game buddies more accurately.

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OUR STRENGTHS

We believe that the following competitive strengths differentiate us from our competitors and enable us to fulfill our mission and achieve long-term success.

Leading Voice-based, Gamer-centric Social Platform

TT Chat app is an innovative and fun mobile app created to facilitate genuine social relationships among users based on their common interests in games and beyond, through leveraging our intelligent matching capabilities and diversified social features and entertainment scenarios. Over the years, we have been focused on facilitating decentralized social interactions – meaning that users are not attracted by a limited number of highly popular hosts or audio streamers. Rather, we provide each user with equal opportunities to receive engagement and interact with other like-minded users across a diversified range of social and entertainment use cases.

Today, we are the largest voice-based mobile social platform and the largest gamer-centric mobile social platform in China in terms of average MAUs in the first half of 2021, according to Frost & Sullivan. Our average MAUs reached 16.2 million in the first half of 2021, which is significantly larger than that of the second-largest voice-based mobile social platform, according to the same source.

We believe our *TT Chat* app has become the go-to online destination for game enthusiasts in China to find companionship and have fun. We are also a pioneer in building a voice-based social platform in China, which enables us to benefit from the deep, lasting nature of voice-based user interactions to create strong emotional connections among our users.

Large, Fast-growing and Highly Engaged User Community

We have a large and highly engaged user community. Our average MAUs increased by 142.5% from 2.2 million in 2018 to 5.4 million in 2019, and further by 126.7% to 12.3 million in 2020, and by 62.0% from 10.0 million in the six months ended June 30, 2020 to 16.2 million in the same period of 2021. Our users are young, tech savvy, enthusiastic about games and are constantly exploring new social connections with others with similar interests and passions. As of June 30, 2021, over 90% of our user base are aged 30 or below based on information available to us. Over time, we have grown our platform to appeal to a user base with balanced gender distribution. More than 43% of our paying users in June 2021 were female. We believe the rich content and diversified gaming and audio entertainment offered by *TT Chat* app meet interest-driven social needs and are highly welcomed by users of different genders.

Our platform attracts game lovers with varied levels of skills and experience, which enables us to successfully help more gamers find the best-matched game buddies. Through a better gameplay experience with suitable game buddies, our users are more deeply engaged with each other and more encouraged to interact with each other in other social networking use cases beyond playing games together. As a result, we benefit from this strong self-reinforcing

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network effect inherent in our platform – as our user base rapidly grows, more interactions and content are generated on our platform in more diversified use cases, which increases the overall appeal of our platform to more new users.

The decentralized nature of social interactions we promote on our platform has also led to a more engaged user base that offers attractive long-term monetization potential in a cost-effective way. The number of average daily active voice chat rooms was over 850,000 during the first half of 2021, increasing by 45.6% compared to the same period of 2020.

Comprehensive Product Features Fulfilling Broad and Evolving Social Needs

We provide a one-stop online destination for game lovers to socialize and have fun together. To address the varying social needs of our users, our platform helps users find, connect, interact and have fun with their new friends through our insight-driven matching and recommendation functions.

Our voice chat rooms are designed to facilitate both pre- and post-game social interactions and provide a vibrant virtual social environment for our users to interact with each other in an immersive group setting. User interactions in our voice chat rooms are driven by their common interests, such as enthusiasm for game, music, anime or literature, and a strong desire for self-expression through voice chats. We have developed a diversified range of product features and functions to address the derivative social needs of users beyond the gaming context. These features and functions include interest-based matching mechanisms, virtual gifting, moments, casual games, and other social entertainment scenarios facilitated by hosts on our platform, such as online dating, online karaoke and talk shows, among others, which enhance the diversity and quality of user engagement, rather than just increasing the length of user time spent.

Advanced Technological Infrastructure

Our ability to engage a large, fast-growing user base is underpinned by our data analytics and technology infrastructure. Through years of development, our proprietary algorithms underlying our data analytics system enable us to improve the success rate of user matching and provide more personalized voice chat room recommendations, which naturally leads to higher user engagement and satisfaction. During the first half of 2021, our platform matched approximately 707,000 new pairs of users who followed each other on average every day, increasing by over 31% compared to approximately 537,000 pairs in the same period of 2020.

We provide personalized matching and recommendation functions through our improving ability of user profiling and the inclusion of more relevant data tags to each user profile. Apart from standard data tags such as gender, age, gameplay experience and interests, we are also capable of tracking behavioral and other types of data such as time spent in each voice chat

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room, activities engaged by users in a particular voice chat room, and users’ profile pictures and nicknames, among others. This advanced analytics of user profiles and other real-time behavior data enables us to develop a deeper understanding of social connections and drive user growth and engagement.

We adopt advanced technologies to offer smooth, high-quality and reliable voice-based communications among users, delivering a superior user experience. Our platform is highly scalable as we can rapidly expand our network capacity on demand, which supports our geographic expansion and rapid growth of our user base. We also leverage machine learning technologies to develop a proprietary automated system for content screening and monitoring to ensure the integrity of our content and platform.

Compelling Community Value Resulting In Strong Monetization Potential

We have successfully proven that the social relationships built and enhanced in our user community can be effectively monetized as we purposefully foster a user community and a facilitating environment that drive like-minded users’ inherent desire to engage with each other. Users come to us to socialize with their new game buddies and new friends. Through our profound understanding of our users through their behavior in our community, we are able to create, encourage and deepen genuine gamer-centric social relationships among our users, which serve as the foundation for our ability to drive user spending. Sales of virtual items are seamlessly integrated with the social and entertainment features and functions on our platform, allowing users to express and differentiate themselves through virtual gifting.

During the first half of 2021, the number of our average MPUs reached approximately 826.8 thousand, compared to 670.1 thousand in the same period of 2020. In the first half of 2021, approximately 3.2 million users had sent virtual gifts to others and approximately 2.6 million users had received gifts from others. The large number of users who had received and sent gifts demonstrates the multi-way interactions that we believe are unique to our decentralized approach to engage with our user community. We are still in the early stages of monetization but have already achieved rapid growth with our revenues increasing from RMB432.9 million in 2018 to RMB836.3 million in 2019, and further to RMB1,493.4 million in 2020, and from RMB602.0 million in the six months ended June 30, 2020 to RMB1,173.5 million in the same period of 2021.

Visionary, Passionate and Experienced Leadership

Our platform was founded on our passion for games and bringing people together. Our founder, Mr. Song Ke, is a serial entrepreneur in the game industry with deep insights into the interests and needs of game lovers and the rising generations in China. He has tremendous impacts on our core corporate values of integrity, caring, and innovation. Under his leadership, our senior management team has spearheaded our rapid growth and expansion.

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Our senior management team consists of industry veterans who have extensive experience in China’s game and mobile internet industries. Our director and senior vice president, Mr. Chen Guangyao worked for Tencent (0700.HK) and JOYY (Nasdaq: YY) before co-founding our Company. Our vice president and chief technology officer, Mr. Xie Rui, worked for JOYY before joining us. They brought us extensive product development and technology expertise. We believe our management’s experience, combined with first-hand market insights and strong execution capabilities, will enable us to solidify our market leadership and drive our continued growth.

OUR STRATEGIES

We intend to achieve our mission and further solidify our leadership position by focusing on the following growth strategies:

Drive Healthy and High-quality User Base Expansion

Our high-quality user community is the bedrock of our future growth. We will continue to attract more users to our platform and bring them a compelling user experience. We intend to increase our market share by further expanding our presence among different demographic groups, such as female and Generation Z users. Towards this goal, we will continue to improve our user matching capabilities through leveraging our insights into the massive trove of data generated on our platform. We will also further enrich the features, functions and content offerings on our platform to help more users engage with others and cultivate long-lasting connections. We believe these efforts will further deepen the bonds among our users, increase their engagement with our platform, and help us foster a close-knit, diverse user community.

To increase our platform’s overall appeal to a larger user base with different backgrounds and from different demographic groups, we will continue elevating our brand image through creative and efficient marketing initiatives, such as organizing esports tournaments among our users, and engaging with social influencers popular among our users.

Engage User Community with Diversified Offerings

We endeavor to offer a one-stop social entertainment experience to our large, fast-growing and engaged user base.

- *Diversify use cases:* We are committed to further expanding our *TT Chat* app to cover more diversified use cases to address the varying social and entertainment needs of our users, especially our users from different demographic groups, such as female and Generation Z users, with diverse preferences. We will further fulfill our users’ need for companionship beyond gaming context, such as real-time voice chatting while watching movies and TV series.
- *Enrich popular topic categories:* We plan to cover more topic categories such as music, movies and lifestyles. To better serve our users’ diversified interests, we will also continue to increase the popularity of these topics among our users through means such as collaboration with social influencers.

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- *Enhance product features:* We aim to inspire our users to generate high-quality interactions and engaging content on our platform through introducing innovative features and functions. For example, we plan to further develop the newly launched membership services to enhance user experience and develop new features that enable users to create their own mini-games and to record content created in our voice chat rooms and share it with others.

Enhance Technology Capabilities

As an innovative, technology-driven company, we are committed to investing in technology across all key aspects of our operation. We plan to recruit top-notch talents, experienced engineers and top graduates to maintain our long-term competitiveness.

Our rapidly growing platform provides us with rich resources for user insights. This allows us to continue to improve our user matching capabilities, real-time voice-based product features and functions, and enhance personalization and user experience. As our understanding of user needs and preferences continues to improve, we will also apply advanced algorithms to improve the efficiency of our user acquisition efforts, strengthen content monitoring to promote our core values, and support our growing scale and geographic expansions. Through the power of technology, we will further enhance our value propositions to our users and business partners.

Nurture New Initiatives with Industry Partners

We plan to enhance our collaboration with leading game developers and brand partners to provide advertising services for their products and services. Apart from our *TT Chat* app, we intend to further invest in other new business initiatives to cultivate an all-around social entertainment ecosystem around our platform, including through deepened collaboration with leading game developers, as well as further developing our esports team operations with reputable industry partners. As we continue to enhance user experience and enrich our offerings, we are well-positioned to further diversify our monetization methods.

Explore Overseas Expansion Opportunities

We believe there is significant potential for us to grow our global reach. We have established presences in Southeast Asia and the Middle East by offering voice-based social platforms to local users and plan to continue to expand our user bases in these geographies. We also intend to selectively pursue potential expansion opportunities in other overseas markets with favorable competitive landscapes and high growth potential. We have a track record of successfully identifying user needs, developing innovative product features, and implementing effective monetization models in the Chinese market. We believe our extensive experience and unique operational know-how accumulated in the Chinese market will allow us to expand effectively in overseas markets.

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OUR PLATFORM

Our Flagship *TT Chat* Mobile App

We operate *TT Chat* app, our flagship mobile app, with 16.2 million average MAUs in the first half of 2021 and over 144 million registered users as of June 30, 2021.

TT Chat app strives to improve the co-experience for all gamers, through finding everyone the most suitable game buddies with the right levels of skills, playing styles and preferences, and other relevant gamer-centric attributes. This gamer-centric social app is uniquely positioned to connect the rising generation of gamers and address their diversified social interaction needs.

Through its interactive functions, *TT Chat* app encourages communications and fuels interactions for players across different demographics. Its core function matches users who may be originally unknown to each other based on their individual profiles in a voice chat room setting, creating a socially engaging and fun gameplay experience.

TT Chat app is also designed to encourage both pre- and post-game social interactions and social interactions beyond the game context with its rich social features and entertainment scenarios. Our deep understanding of gamers and their broader social needs allows us to create a highly interactive social environment that appeals to our users.

The *TT Chat* App Social Experience

Insight-driven Game Buddy Matching

Most of the users initially come to *TT Chat* app to find the best game buddies. We match our users with each other accurately and efficiently via our advanced recommendation algorithm, game-specific filtering criteria and various gamer-centric matching features. Our game buddy matching services are offered free of charge to all of our users.

Our large, growing and engaged user base, with different profiles and preferences, provide ample matching choices for new and existing users who look for game buddies on *TT Chat* app. Our users initiated over 850,000 voice chat rooms on average every day during the first half of 2021, the majority of which were for game buddy matching as well as socialization before, during and after games.

Our proprietary game buddy matching system is underpinned by the large amount of gamer-focused data we accumulate during the course of our operation. This system has incorporated more than 70 descriptive tags to depict a comprehensive user profile – creating a unique “gamer” virtual identity for each user on our platform. Once a user opens an account with us, she or he will be prompted to answer a series of fun questions to set up a “gamer ID card” with their personal preferences and characteristics. As the user’s preferences change and

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as his or her playing records develop over time, our system will update the gamer profile accordingly. Through this process, we will be able to profile users more accurately with more descriptive tags, which will, in turn, contribute to a more personalized game buddy matching experience.

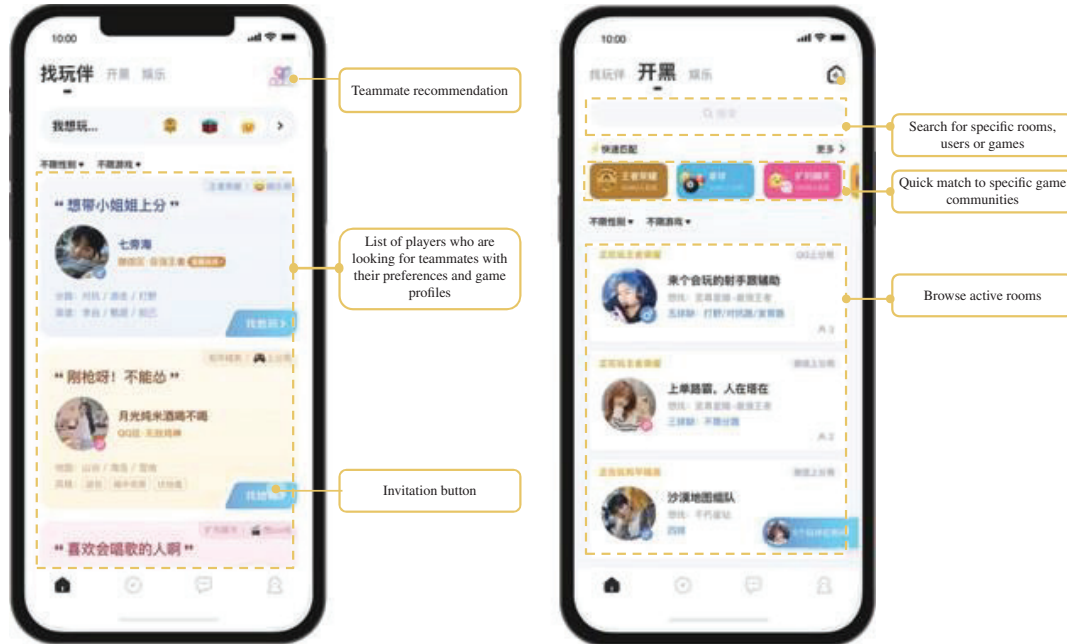
We believe our strong insight-driven game buddy matching tools allow us to attract a large number of gamers to play together and have fun on *TT Chat* app. We offer a variety of proprietary matching tools and constantly iterate our matching mechanism to improve the accuracy and efficiency of personalized game buddy matching. To build a more interactive gameplay experience for the fans of popular games, we tailor our matching criteria and mechanism for specific games such as *Honor of Kings* (王者榮耀), *Game for Peace* (和平精英), *League of Legends Mobile* (英雄聯盟手遊), *Minecraft* (我的世界) and *Genshin Impact* (原神).

Some examples of our key matching features and functions are set forth below.

- *Find a Teammate.* A user may scroll down a profile list of other users who are looking for teammates and select one of them as he or she sees fit to send an invitation. If the one he or she chooses accepts that invitation, the two are matched successfully. The profile list is tailored according to the user’s preferences by our algorithms, based on the descriptive tags, playing records and other relevant user information. He or she may also take advantage of our *Teammate Recommendation* feature, which will display a pop-up window to recommend a user whom our algorithms determine to be a suitable teammate to him or her.
- *Quick Match.* *Quick Match* function lists more than a dozen popular games, such as *Honor of Kings*, *Game for Peace* and *Minecraft*, where a user may select a game he or she wants to play for the system to quickly match him or her with other users who have similar preferences and are available to team up. This function is specifically designed for users who crave a spontaneous game and look for teammates who can join on short notice.
- *Create a Chat Room.* Users may create a chat room where they can set up the game type, room names and game level preferences. The room host may post the room information on the platform for users who meet the requirements to join the room and play together. This function is specially designed for users with clear preferences for whom they want to play a game with, such as players who are looking for more experienced teammates.
- *Smart Search Functions.* We also provide our users the option to search for a specific room or teammate with our AI-empowered search functions. They can search via our pre-designated filters, such as the game to play and the length of time to play. They can also use our general search function to find buddies based on user IDs, nicknames, voice chat room names or numbers.

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Set forth below are screenshots of these matching features and functions.



As the matching process effortlessly unfolds, our system seamlessly groups each of matched gamers into a voice chat room on *TT Chat* app, where they can start chatting and interacting with each other, team up in the selected game app, and start playing the game right after a team is fully assembled there. Our matching mechanism can also help our users find new friends with whom they are likely to establish rapport to create a voice chat room for casual social interactions.

Interactive Features and Functions Around Voice Chat Rooms

Our voice chat rooms provide a vibrant virtual social environment for our users to gather and interact with each other in an immersive group setting. User interactions in our voice chat rooms are usually driven by their common interests, such as enthusiasm for games, music, anime or literature, and a strong desire for self-expression. Our interactive features and functions are generally offered to all of our users free of charge. We started to offer membership subscriptions to our users in July 2021. Users who pay a subscription fee for our membership packages gain exclusive access to a variety of newly designed special virtual items and features to enhance their experiences.

Some examples of the key features and functions of our voice chat rooms are set forth below.

- *Voice Chats.* Each voice chat room provides eight microphone positions that allow up to eight users to speak at the same time and enable audiences in the same chat room to listen. This function can run in parallel when the user switches to another app or puts the phone away. Users can communicate with emotional expressions

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through voice chats while playing games on another app, reading an article on a news app or engaging in offline activities. They can also talk casually or engage in other entertainment activities with the help of our fun voice-based chatting functions. Voice chats create a delightful and relaxing social experience for everyone within and beyond the gaming context.

- *Virtual Gifting.* As part of user interactions in a voice chat room, each user can purchase virtual items using our virtual currency TT beans. See “– Our Monetization” for more details. Users can choose from a varied selection of virtual items, such as virtual flowers, birthday cakes and jewelry, and send them as gifts to any other user, a group of users or a host in the voice chat room. We frequently release trendy virtual items to add more fun to the gifting process. Gifts are sent by users as a gesture of friendship, admiration or support, and to gain peer recognition. In the six months ended June 30, 2021, approximately 3.2 million users had sent virtual gifts to others and approximately 2.6 million users had received gifts from others. The large number of users who had received and sent gifts demonstrates the multi-way interactions that we believe are unique to our decentralized approach to engage with our user community. The gift-exchanging process enhances the users’ sense of participation and sense of belonging and allows them to express themselves in their virtual social interactions on our platform.
- *Other Interactive Functions.* In our voice chat rooms designed to cater to users’ preferred ways of communications, users can also interact with each other through bullet comments, emojis and pictures. Supplementing the voice chats, these interactive functions allow for more diversified interactive formats and more users to engage in the room activities at the same time.
- *Gameplay Facilitation.* We design various functions of our voice chat rooms for gamers, especially for esports gamers, to deliver an interactive, immersive and fun gameplay experience. For example, when some of the teammates leave the chat room unexpectedly during the course of gameplay, our system can instantaneously identify and add a new gamer into the chat room to ensure an uninterrupted gameplay experience. Our users are also able to quickly gather their teammates from previous game matches. In addition, our voice chat rooms are featured with an expanding collection of “battle songs” – exciting background music that creates spirited vibes for our gamers.

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Set forth below are screenshots of these voice chat room features and functions.

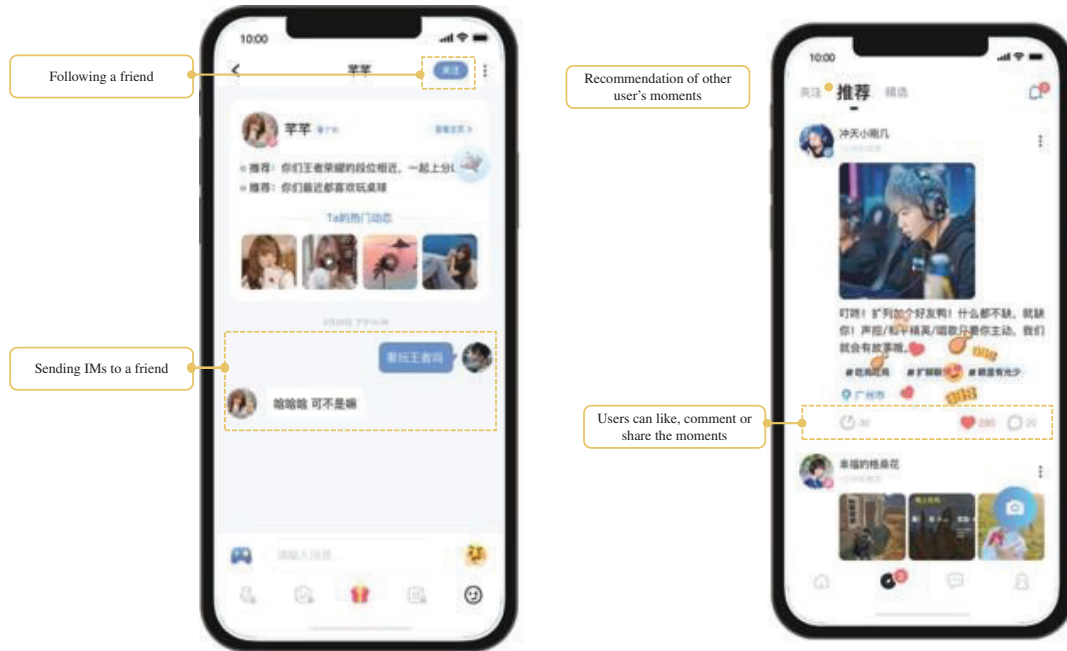


The interactive social experiences on *TT Chat* app also go beyond the voice chat rooms. We offer other interactive features and functions to provide our users with a multifaceted socializing experience. Some key features and functions are set forth below.

- *Following.* Users can add other users as “friends” on our platform and create groups of friends. By following a friend, users can exchange instant text messages, view the activities and postings uploaded by that user and comment or interact further.
- *Messaging.* Users may send text, graph or voice messages to other friends or in friend groups. By taking the conversations in more private settings, friends can engage in deeper communications to bond further.
- *Moments.* Moments is essentially a mini-blog feature on *TT Chat* app, including texts, pictures, or short video clips posted by users. Users can see updates of their friends’ moments. Our platform also recommends other users’ moments based on user profiling. We have embedded interactive features in moments as well. When a user finds a moment interesting, he can like it, comment on it or share it with others both within and outside *TT Chat* app.

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Set forth below are screenshots of these interactive functions.



Users who pay a subscription fee for our membership packages gain exclusive access to special virtual identification, a variety of newly designed emoji packs, chat backgrounds, voice room virtual decorations and other virtual items. They are also able to see who have visited their virtual spaces, send special messages to specific users, set special alert sounds for specific users, and enjoy other entertainment features to enhance their experiences.

Diverse Social Entertainment Offerings

To stimulate interactions and strengthen the bonds created among our users, we offer a diversified portfolio of voice-based interactive entertainment scenarios to enrich user experience and drive user spending on *TT Chat* app. Our diverse social entertainment offerings are provided free of charge to all of our users.

Voice-based social entertainment scenarios

Among over 850,000 voice chat rooms initiated every day on average during the first half of 2021, approximately 6,500 were initiated as voice-based social entertainment rooms, which are supported and participated by hosts on our platform. In a voice-based social entertainment room, a host can drive the discussion, solicit social interactions among users and create an engaging atmosphere to enhance user experiences and encourage virtual gifting. Some examples of our social entertainment scenarios are as follows.

- *Online Dating.* Our users can group in a chat room to meet other users for online dating or to stream a live matchmaking show as a bystander.

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- *Online Karaoke.* Users may initiate a karaoke night with their game buddies on our platform to celebrate after several well-played rounds of games or when they simply feel like singing with friends.
- *Role-play Dubbing.* Our vibrant and creative users may also want to try role-play dubbing with same-minded people after a stressful day.
- *Audio Streaming.* We offer audio streaming rooms where a host broadcasts audio entertainment content to a large audience of users and establishes emotional connections with users.

Set forth below are screenshots of these social entertainment scenarios and an audio streaming room.



Hosts on our platform

We create a virtual stage for every user to showcase his or her talent and personality. As our users become more engaged on our platform, we encourage them to become a host on our platform to make more friends and drive interactions among more users. A host typically shares 50% of the proceeds of the virtual gifts that he or she receives on our platform. See “– Our Monetization” for more details on our revenue sharing with hosts. We verify the identity of every host and require them to comply with our management policy, content monitoring guidelines and other regulatory requirements.

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We engage with our hosts under two distinct models in accordance with the following summary of the key contractual terms

- *Direct contracts.* Under this model, we directly contract with certain hosts to broadcast entertainment content mainly in audio streaming rooms to fulfill our users’ diversified demand for professionally generated audio entertainment contents. These hosts typically share 50% of the proceeds from the virtual items he or she receives. The contract with such hosts typically includes terms regarding revenue sharing arrangements, minimum broadcasting time requirements, compliance policy regarding streaming content, our intellectual property ownership regarding streaming content, user privacy and data use, confidentiality and non-solicitation obligations, among others.
- *Cooperation with guilds.* As some hosts gain more popularity on our platform, they tend to join a guild to operate on a more professional basis on our platform. Each guild is led by a representative who sets up the guild and the representative cannot be changed. To manage such guilds and enhance their service standards, we enter into agreements with these guilds’ representatives, which contain our service terms and revenue-sharing arrangements. Under our agreement with a guild, the guild is responsible for setting up and managing certain chat rooms to increase their attractiveness to the users and maintain good orders and compliance with our policies. The guild shares 10% to 15% of the proceeds from all virtual item consumptions in these chat rooms. A guild is also responsible for recruiting, training, supporting and promoting their hosts on our platform. A host may enter into an agreement with the affiliated guild to share an agreed-upon portion of the proceeds the guild obtained from virtual item consumptions in the chat room managed by the guild, which is in addition to the 50% of the proceeds of the virtual gifts that the host typically receives. As an open platform that features diverse social entertainment offerings and welcomes hosts to promote and monetize through social interactions among users, we believe our cooperation with guilds increases our operational efficiency in terms of diversifying our social entertainment scenarios, as well as identifying, supporting and managing hosts in an organized manner.

Casual Games

We develop and offer more than a dozen casual games embedded within our voice chat rooms such as *Werewolf*, *Billiards*, *Gomoku* and *Monopoly* for users to relax and socialize after gameplay to further enhance user time spent and stickiness. These casual games are provided free of any charge. Users are encouraged to chat with each other while playing casual games. For example, *Werewolf* is a popular, social deduction game where frequent voice chats and strong teamwork are indispensable for success. These games can serve as icebreakers and increase interactions with new friends. In addition, our casual games rooms are also equipped with the same matching functions as our regular game voice chat rooms.

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Set forth below are screenshots of a selection of our casual games and a *Werewolf* room.



OUR MONETIZATION

Currently, our *TT Chat* app is offered free of charge and users can set up their own chat rooms for free. In our chat rooms, users can enjoy all of our game buddy matching and other social entertainment offerings for free. Our various interactive features and functions within and beyond chat rooms are also generally offered for free. Users can purchase and consume virtual gifts to engage with other users and hosts.

We derive our revenues primarily from the consumption of virtual items on *TT Chat* app. Our services can be further categorized in the following two types:

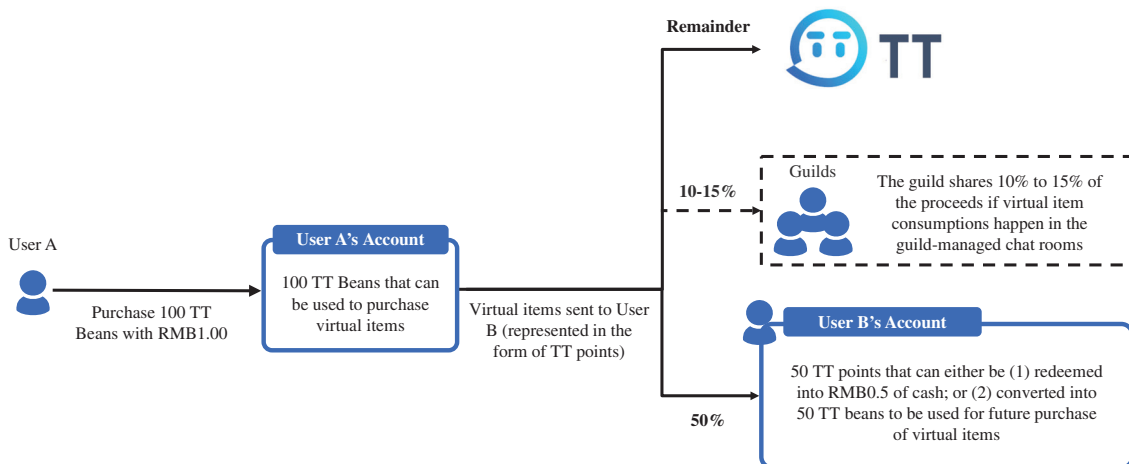
- *Value-added service*, where our users utilize the interactive functions and features on our platform and purchase and send virtual gifts in multi-user interaction scenarios to differentiate their virtual characters and develop long-lasting relationships with each other; and
- *Audio entertainment services*, where our users send virtual gifts to hosts and guilds contracted with us in our diverse audio entertainment scenarios who provide audio streaming. We did not generate any revenues from audio entertainment services in 2019 and achieved rapid growth in revenues since its launch on *TT Chat* app in 2020.

We started to offer membership subscriptions to our users in July 2021. Users who pay a subscription fee for our membership packages gain access to additional functions and privileges to enhance their experience. We set the price for our membership subscriptions based on various factors, such as our marketing strategies, seasonal promotions and our competitors' pricing, and currently charge approximately RMB9 to RMB12 per user per month for our membership subscriptions.

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In 2018, 2019 and 2020, we generated RMB253.9 million, RMB716.4 million and RMB1,357.1 million from value-added services, representing 58.6%, 85.7% and 90.9% of our total revenues for the same periods. In the six months ended June 30, 2020 and 2021, we generated RMB573.1 million and RMB963.2 million from value-added services, representing 95.2% and 82.1% of our total revenues for the same periods.

The exchanges of gifts on our platform are an integral part of the social networking and entertainment experience on our platform. Users can purchase our virtual currency (“TT beans”) via bank transfers and various online third-party payment channels, such as Alipay, WeChat Pay and Apple, at an up to 1:100 exchange rate from RMB to TT beans, subject to fees payable to certain app stores. The TT beans are non-refundable and do not have an expiration date. Such TT beans can be used by a user to purchase virtual gifts to be sent to other users and hosts to show appreciation. Once a virtual gift is sent by a user, our system will automatically credit a certain amount of virtual tokens (“TT points”) to the user account of the recipient of such virtual gifts. The amount of the TT points credited to a user’s account is currently half of the amount of TT beans used for purchasing the virtual gifts to reflect the revenue sharing arrangement between the user and us, which arrangement is subject to change. At the recipient’s election, he or she can redeem TT points into cash in Renminbi at a 100:1 exchange rate and transfer the corresponding Renminbi amount using third party payment channels such as WeChat Pay or bank wiring, or convert TT points into TT beans at a 1:1 exchange rate, which can be used for future purchase of virtual gifts. These two exchange rates have not been changed since late 2016. For hosts associated with guilds, unless otherwise agreed by the parties, our platform will settle the payments with the guilds on a regular basis based on the agreement with them, who will then settle the payments with the hosts they manage. TT beans and TT points can only be spent on our platform and have no monetary value outside of our platform.



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OTHER COMPLEMENTARY BUSINESSES

We engage in eSports team operation business as part of the broader gamer-centric ecosystem around our *TT Chat* app. Our broadly recognized brand name among game enthusiasts and our large user base on *TT Chat* app gives us an advantage in eSports team operation business. Through our eSports team operation business, we believe we are capable of strengthening our reputation and brand impact among gamers and generate revenue from advertising sponsorships and a portion of the wining prizes earned by our eSports teams. We have cultivated three professional eSports teams under the single brand name of TTG. As of the Latest Practicable Date, these teams have a total of 50 professional athletes and participate in competitions and tournaments for various popular games, such as, *Honor of Kings* (王者榮耀), *League of Legends* (英雄聯盟) and *League of Legends Mobile* (英雄聯盟手遊). TTG won the silver medal during the *King Pro League* (“KPL”) Spring Finals in June 2021. KPL is an eSports professional league of mobile game in China, operated by Tencent. This further enables us to promote our *TT Chat* app to attract more users as a voice-based, gamer-centric social platform.

We also operate a business unit engaging in game distribution, separating from the *TT Chat* app, which generate revenues from offering virtual items in online games developed by third parties. We strategically streamlined this operation and reduced our investments in its growth to focus more on growing our *TT Chat* app and the services offered within such app.

In light of favorable market conditions, we have established presences in Southeast Asia and the Middle East to offer voice-based social platforms to local users, with features and functions similar to those of *TT Chat* app. These platforms are operated by dedicated teams of local knowledge, catering to local users’ special needs and preferences. In September 2021, these platforms have a total MAUs of approximately 0.4 million. We are still exploring monetization opportunities for these businesses. Going forward, we plan to prudently pursue overseas expansion opportunities based on detailed market analysis and strategies.

OUR TECHNOLOGY AND INFRASTRUCTURE

Our strong technological capabilities support the superior user experience and stable operation of our platform. Our *TT Chat* platform mainly rely on our data analytics and advanced recommendation algorithms, which empowered our matching system and recommend and push system, as well as our audio technology.

- *Data analytics and advanced recommendation algorithms.* Our platform processes a huge amount of users’ data to cultivate and improve our recommendation algorithms, so that we provide our users with the optimized matching and recommendation result, which in turn increases user base and user data. In addition, our data analysis capabilities and advanced recommendation algorithms may help us achieve precision marketing in the future. Our data analytics can help identify the users that are most willing to participate in our marketing events and those that are most likely to pay.

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- *Audio technology.* Our audio technology can support a maximum of over 100,000 users simultaneously in the same voice chat room without any material transmission delays. While we have developed some key components and infrastructures underlying our audio technology, we also procure technical services from third parties to support the operation of our platform.

Our main IT infrastructure includes Internet data centers (IDC) and content delivery networks (CDN). We lease IDC facilities from major domestic IDC providers. As of the Latest Practicable Date, we own more than 55 servers hosted in three internet data centers across China, which contributed significantly to our smooth streaming experiences and reliable services. In addition, we utilize third-party cloud services to complement our needs for net speed and storage capacity. We believe that our existing facilities are generally adequate in meeting our current needs, but we expect to seek additional space as needed to accommodate future growth.

CONTENT MANAGEMENT AND MONITORING

We are committed to complying with relevant laws and regulations, upholding the integrity of our vibrant community, and protecting third-party copyrights. We have implemented strict content moderation procedures to identify and remove inappropriate or illegal content, including content that goes against our policies and applicable laws and regulations. We have a dedicated content monitoring team responsible for detecting and preventing the release of inappropriate or illegal content across all content formats on our platform. As of June 30, 2021, we had a team of 244 people responsible for content monitoring and customer services, including contractors we engaged by third-party labor outsourcing agencies. We also monitor the content on the platform with the help of third-party vendors. Our platform has the right to shut down any voice chat rooms or suspend users’ accounts.

Our content monitoring team employs systematic monitoring procedures that include AI-based machine screening and manual review. Our automatic identification system automatically screens text, picture and audio content. Any content that is flagged by our machine screening process must then be reviewed again by our content monitoring team to decide if the content is inappropriate or illegal. Audio streaming on our platform are reviewed simultaneously by our machine screening system and content monitoring team while they are being broadcasted. Any red flags will trigger a second review by our content monitoring team and possible termination of the audio streaming session.

Additionally, users are welcomed to report any violations of our terms of service or other inappropriate behavior via the “report” button in our *TT Chat* app. We analyze multiple factors in order to determine the reliability of and prioritize various reports of inappropriate content, including the history of the reporting user, effective reporting rate and the harmfulness of the content reported. The customer service team will follow each valid report to solve the problem according to our platform policy.

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If our content monitoring team notices any violation by our streamers or viewers, they will take the following actions:

- *For minor violations*, our content monitoring team will give warnings to the violating users, and continue monitoring their actions. If a violating user stops the inappropriate behaviors, he or she may continue using our platform freely; if the violation continues, the user will be temporarily suspended from streaming, uploading video clips or sending messages on our platform, but may continue using our platform as a viewer. The period of the suspension varies from two hours to one year, depending on the seriousness of the violation.
- *For zero-tolerance violations*, such as acts or threats of violence, nudity, use of illegal drugs, or making politically sensitive or inflammatory comments, a violating user will be permanently suspended from accessing our platform, and all the virtual currency and items in the user’s account will be forfeited.

If a user believes that the decision made by our content monitoring team was wrong, he or she can appeal the decision by contacting our customer service team, who will direct their cases to the moderation panel of our content monitoring team. The moderation panel will conduct a new round of review, and upheld or reverse the original decision based on the results of their review.

However, there can be no assurance that we can identify all the contents that may violate relevant laws and regulations due to the large amount of content generated by our users every day. In August 2019, the Office of the Central Cyberspace Affairs Commission of China, or CAC, notified Apple’s and Android’s App Stores to suspend the downloading of our *TT Chat* app, mainly because certain content on our platform was, as of such time, considered inappropriate by the relevant governmental authority. During this period, we were required to adopt enhanced measures to improve our content monitoring system and suspend the *Moments* function. Subsequently, we submitted a report to CAC on the enhanced measures taken by us, including establishing a more comprehensive training mechanism for our content monitoring team, improving our AI-enabled content monitoring technologies and increasing manual monitoring workforce to enhance content monitoring. CAC lifted the suspension on downloading of our *TT Chat* app in late November 2019 after our adoption of the requested enhanced monitoring measures. Our *TT Chat* app is currently available for download in all major app stores. Due to such temporary suspension, the growth of our user base and user engagement was adversely affected during the suspension period.

We established a minor version of our *TT Chat* app, where underage users may view minor-friendly contents, their using hours are limited, minors are prohibited from virtual gifting, certain functions are disabled. Under the general mode, from early, the users who can be identified as minors are not allowed to make virtual gifts. When a user launches our app for the first time every day, the user can switch to the minor mode according to the pop-up prompt, and the browsing content under the minor mode is presented in the form of whitelist by our content team, and parents can set up passcodes under the minor mode to manage the time spent

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by minors on our platform and to prevent minors from switching back to general mode. In addition to the minor mode which has been implemented on the platform, we have also adopted special content presentation policies and community permission settings for users who are not authenticated or whose identities are shown as minors, so as to strictly identify and filter undesirable information for minors. After consultation with the PRC Legal Advisor, we confirm that the operation of content under the minor mode is compliant with PRC laws and regulations in all material aspects.

As a result of our content monitoring efforts, during the Track Record Period and up to the Latest Practicable Date, no fines were imposed on us by, government authorities for having inappropriate or illegal content on our platform.

DATA PRIVACY AND CYBERSECURITY

We have implemented a series of internal policies to regulate data-related operations, including the collection, transmission, storage, sharing, destruction, back-up and recovery of data. Our data security policies comprehensively cover mechanisms for user privacy protection, data classification and access restrictions, user authorization, internal control of data processing, monitoring, emergency responses and management of third-parties. For example, our operation backend system has been designed with an authority-based access system, where we require prior superior approval from business and technical department heads for any employee to gain access to download multiple data. We have comprehensive data back-up plan to guarantee our data security. We save our core data to back-up storage every day on multiple cloud services and will be preserved in compliance of applicable laws and regulations.

To keep abreast with recent regulatory developments, we have engaged an experienced external legal advisor to advise us on the new requirements under the recently enacted data protection laws and regulations of the PRC to ensure the integrity and effectiveness of our data protection policies in compliance with all applicable laws and regulations. With the assistance of such special legal advisor, we have adopted enhanced measures to further protect the data security and privacy on our platform.

- For example, we updated our user agreements and privacy policies on our platform to prominently notify users of our names and contact information, the purpose, scope and method of our handling of personal information, and the rights that users are entitled with their personal information.
- We have formulated a series of internal protocols regarding data privacy and cybersecurity, such as: (i) Policy on Data Security and Personal Information Protection (《數據安全與個人信息保護政策》) that outlines our company-level policies towards data security and personal information protection, (ii) the Administrative Measures on Personal Information Protection (《個人信息保護管理辦法》) and (iii) the Administrative Measures on Data Security (《數據安全管理辦法》) which details the procedures and steps that we require our employees to take

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in day-to-day work regarding personal information protection and data security, respectively. Furthermore, we have also formulated an Administrative Regulations on Data Security Event Management (《數據安全事件管理規範》) and a Plan of Cyber Security Emergency Response (《網絡安全應急預案》) to strengthen our emergency responses in the event of a cybersecurity incident.

- Additionally, we train new employees on cyber security awareness at the beginning of their employment, conduct regular information security training for employees who process data, and take back the physical and logical access of resigned employees in a timely manner.

During the Track Record Period, we did not experience any material information leakage or loss of user data in the PRC or any overseas market. As a result of these internal control and compliance efforts, as of the Latest Practicable Date, we are in compliance in all material aspects with all current effective PRC data security laws and regulations. In light of the evolving regulatory requirements, we will continue to seek advice from experienced counsel on the applicable compliance requirements on a regular basis.

SALES, MARKETING AND BRANDING

We believe that our gamer-centric, multifaceted social experience and large user base have led to repeated user visits and word-of-mouth effect that strengthens awareness of our brand among users. As a supplement to word-of-mouth marketing, we acquire new users through various channels, including leading short video platforms, news feed advertisements, advertisements on app stores and search engine marketing.

We promote our brand recognition and brand image via online advertisements and other marketing approaches. For example, we booked one-off franchise fees for the Honor of Kings Professional League and in the League of Legends Professional League to allow our esports teams to participate in those high-profile esports tournaments, which we believe can increase the impact of our brand among gamers, who are our target users, and in the gaming industry in general. From time to time, we collaborate with pop artists and social media influencers to host ad hoc online events to draw the attention of our users and potential users. We intend to increase our investment in branding in the future.

RESEARCH AND DEVELOPMENT

We rely on our continuous investment and strong ability in research and development to enhance our technology and products, thereby attracting and retaining our users. We have a dedicated R&D team consisting of 469 people as of June 30, 2021, a significant portion of whom hold bachelor’s degree or above. We have made significant investments into our research and development efforts and technology infrastructure. Our research and development expenses were RMB44.1 million, RMB88.2 million, RMB143.4 million, RMB60.4 million and RMB125.7 million in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively, representing 14.9%, 21.6%, 14.8%, 16.5% and 13.0% of our total operating

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expenses, respectively, during the same periods. Our research and development expenses are primarily related to compensation to those employees engaged in R&D activities, design and development expenses, bandwidth costs and other R&D related expenses.

Our R&D team mainly focuses on the following aspects to improve our IT abilities and better support *TT Chat* platform:

- *Matching and system recommendations.* Our R&D team continuously improves our advanced algorithms to optimize the efficiency and accuracy of game buddy matching and system recommendations, further enhancing our user experience.
- *Application of AI.* Our R&D team also explores the possibilities to apply our AI technologies to scenarios other than matching and recommendations, such as in marketing and branding activities. These new applications were incubated and optimized, leveraging our data middle platforms with enhanced scalability.
- *Voice-text transfer.* We make R&D efforts to voice-text transfer technology in order to support our user behavior analysis to better understand users’ communication on the platform and improve our user experience.

CUSTOMERS AND CUSTOMER SUPPORT

Our customers primarily consist of paying users on our platform who buy and consume virtual items, membership and other services we offer, esports operators and third party games developers. Our top five customers accounted for 17%, 3%, 1% and 2% of our total revenues for each of the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021. To the best knowledge of our Directors, none of the top five customers during the Track Record Period is a connected party of our Company.

We have a dedicated customer service team consisting of 59 people as of June 30, 2021 to assist our users. Our users may call our customer service representatives 24/7 or submit inquiries, feedback or complaints to our *TT Chat* assistants at any time. Upon receipt of complaints or inquiries, our customer service representatives will conduct investigations and promptly provide users with explanations and solutions for the issues they report.

SUPPLIERS AND PROCUREMENT

Our suppliers mainly include advertisement agencies, hosts and guilds, game content developers and other distributors, payment channels and service providers for cloud computing and bandwidth leasing. A vast majority of our hosts are managed by guilds. For those hosts who join a guild, we will enter into a services agreement with the guild to agree upon service terms and revenue sharing arrangement. We are entitled to the intellectual property rights of the content produced by the hosts affiliated with the guild on our platform and share a portion of

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the revenue with the guild. The guild is usually responsible for training, supporting and promoting its hosts, and makes revenue sharing arrangements with these hosts. We have entered into exclusive cooperation agreements with certain hosts and guilds on our platform.

Our top five suppliers in aggregate accounted for approximately 37%, 19%, 35% and 31% of our total purchases in 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively. Our largest supplier accounted for approximately 13%, 6%, 16% and 12% of our total purchases in 2018, 2019 and 2020 and the six months ended June 30, 2021, respectively. All of our five largest suppliers are independent third parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our five largest suppliers that is required to be disclosed under the Listing Rules. To the best knowledge of our Directors, none of our suppliers during the Track Record Period is a connected person of our Company.

The table below sets forth the details of our five largest suppliers during the Track Record Period.

Rank	Supplier	Products/services purchased	Length of business relationship	Business scope	Purchase amount consolidated RMB'000	% of total purchases
<i>For the year ended December 31, 2018</i>						
1	Supplier A	Online advertising services	4 years	Online advertising services provider	28,627	13%
2	Supplier B	Online advertising services	4 years	Online advertising services provider	15,464	7%
3	Supplier C	Online advertising services	2 years	Online advertising services provider	14,122	6%
4	Supplier D	Game co-distribution	2 years	Game developer and distributor	11,653	5%
5	Supplier E	Hosts management	5 years	Talent agency	10,638	5%
<i>For the year ended December 31, 2019</i>						
1	Supplier F	Online advertising services and game co-distribution	5 years	Online advertising services provider and game distributor	26,962	6%
2	Supplier E	Hosts management	5 years	Talent agency	18,860	4%
3	Supplier G	Hosts management	5 years	Talent agency	15,694	3%
4	Supplier H	Online advertising services	1 year	Online advertising services provider	12,763	3%
5	Supplier I	Online advertising services	1 year	Online advertising services provider	12,251	3%

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Rank	Supplier	Products/services purchased	Length of business relationship	Business scope	Purchase amount consolidated <i>RMB'000</i>	% of total purchases
<i>For the year ended December 31, 2020</i>						
1	Supplier J	Online advertising services	2 years	Online advertising services provider	153,580	16%
2	Supplier K	Online advertising services	2 years	Online advertising services provider	91,600	9%
3	Supplier L	Online advertising services	0.5 year	Online advertising services provider	41,662	4%
4	Supplier E	Hosts management	5 years	Talent agency	37,110	4%
5	Supplier M	Online advertising services	1 year	Online advertising services provider	26,575	3%
<i>For the six months ended June 30, 2021</i>						
1	Supplier K	Online advertising services	2 years	Online advertising services provider	108,139	12%
2	Supplier J	Online advertising services	2 years	Online advertising services provider	90,921	10%
3	Supplier N	Online advertising services	1 year	Online advertising services provider	28,657	3%
4	Supplier E	Hosts management	5 years	Talent agency	28,557	3%
5	Supplier O	Online advertising services	3 years	Online advertising services provider	27,156	3%

For major suppliers, we usually select from at least two candidates for each procurement project exceeding certain threshold, and select certain key suppliers through bidding processes, to minimize any potential disruption in our operations, maintain sourcing stability, avoid over-reliance and secure competitive prices from suppliers. During the Track Record Period, we have not experienced any significant fluctuation in prices set by our major suppliers, material breach of contract on the part of our suppliers and delay in delivery of our orders from our suppliers that had any material adverse impact on our business or results of operations.

DISTRIBUTION CHANNELS FOR OUR MOBILE APP

Our *TT Chat* app can be downloaded for free from various application stores, including Apple’s App Store and various Android application stores. We are required to comply with the standard terms and conditions of the various application stores. These stores have similar rights to remove our app from their stores if we violate their terms and conditions. See “Risk Factors – Risks Related to Our Business and Industry – We rely on our mobile app to provide services to our users which, if inaccessible, may have material adverse impact on our business, financial condition and results of operations.”

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SEASONALITY

Our results of operations are subject to seasonal fluctuations. For example, the growth of active users tends to accelerate during school holidays, such as summer and winter breaks, which typically fall in the middle of the third and first quarters of each year, and slow down at the beginning of certain parts of the school year as students’ access to mobile phones and the internet is affected. Seasonality fluctuations have not thus far posed material operational and financial challenges to us, as such periods tend to be brief and predictable, allowing us to reallocate resources and improve efficiency ahead of time.

COMPETITION

We operate an innovative voice-based, gamer-centric social platform. We are the largest voice-based mobile social platform and the largest gamer-centric mobile social platform in China in terms of average MAUs in the first half of 2021, according to Frost & Sullivan. We also compete with other platforms offering online entertainment services such as online video platforms, social media platforms and online music platforms for user time spent in general. As one of the few players in this market, we directly compete with other social networking and entertainment platforms for users. Some of our larger competitors have substantially broader service offerings and more working capital to support heavy spending on sales and marketing. For more information on the competitive landscape of our industry, see “Industry Overview – Evolving Mobile Social Networking Industry In China – Competitive Landscape of Voice-based Mobile Social Platforms” and “Industry Overview – Evolving Mobile Social Networking Industry In China – Competitive Landscape of Gamer-centric Mobile Social Platforms.” We believe that our ability to compete effectively for users depends on many factors, including user experience on our platform, creation of a vibrant community atmosphere, our marketing efforts and the reputation of our brands.

In addition, as our business continues to grow, we face significant competition for highly skilled personnel, including management, engineers, product managers and sales and marketing personnel. The success of our growth strategy depends in part on our ability to retain our existing personnel and recruit additional highly skilled employees.

INTELLECTUAL PROPERTIES

Our Intellectual Properties

We seek to protect our intellectual property rights through a combination of patents, trademarks, copyrights, trade secrets, confidentiality agreements and non-compete agreements. As of the Latest Practicable Date, we had registered 13 patents, 190 software and other copyrights, 430 trademarks and 34 domain names in China. In addition, we had submitted applications for 50 patents, and 184 trademarks in China and seven trademarks overseas as of the Latest Practicable Date.

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Our Intellectual Properties Protection

We generally require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation and other proprietary information. Although we rely on intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality, and frequent enhancements to our applications are essential to establishing and maintaining our technology leadership position.

Our platform primarily comprises user generated content. We are committed to copyright protection. We take various measures to ensure content offered on or uploaded to our apps does not infringe upon the copyrights of third parties. According to a “safe harbor” provided by relevant PRC laws, we are required to take necessary actions to take down the relevant content uploaded by a user promptly after receiving a complaint regarding copyright infringement accompanied with the evidence required under relevant PRC laws. We have set up a reporting and rights protection function in our *TT Chat* app through which users can report content uploaded on our platform in violation of copyrights. We have dedicated personnel to review and process any such reports and remove violating content when necessary. Once repeated violations on the part of a user have been determined, we may suspend or terminate such user’s account.

We also seek contractual protection from the agreements between us and users. For example, we require our users not to publish any content that infringe third-party’s copyrights in our user agreement, and we may delete such content or suspend the user’s account without providing any reasons or prior notices if we identify any such infringement.

During the Track Record Period, no material claims or disputes were brought against us in relation to any infringement of trademarks, copyrights or other intellectual property.

EMPLOYEES

Our ability to recruit and retain qualified employees is critical to our continued success. We invest heavily in our training and leadership development programs to encourage the development and promotion of our employees. Substantially all of our employees were based in our offices in China as of June 30, 2021.

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We had 1,068 full-time employees as of June 30, 2021. The following table sets forth the breakdown of our full-time employees by function as of such date:

Function	Number of Full-time Employees	Percentage (%)
Research and development	469	44
Sales and marketing	354	33
Administrative	141	13
Customer services and operations	104	10
Total	1,068	100

In addition to our full-time employees, we also procure services of individuals employed by third-party labor outsourcing agencies to support our content monitoring and other business functions. The third-party service providers are responsible for making contributions to these individuals’ social insurance and housing provident funds.

We enter into standard employment contracts with our full-time employees. In addition to salaries and benefits, we provide performance-based bonuses for our full-time employees.

Under PRC law, we participate in various employee social security plans that are organized by municipal and provincial governments for our PRC-based full-time employees, including pension insurance, unemployment insurance, work-related injury insurance, medical insurance and housing fund. We are required under PRC law to contribute from time to time to employee benefit plans for our PRC-based full-time employees at specified percentages of the salaries, bonuses and certain allowances of such employees, up to a maximum amount specified by the local governments in China.

We believe that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes in the past. None of our employees are represented by labor unions.

INSURANCE

We believe we maintain insurance policies covering risks in line with industry standards. Except for the property insurance policies covering one of our office buildings, we do not maintain any liability insurance or property insurance policies covering our equipment and facilities for losses due to fire, earthquake or any other disaster. Consistent with customary industry practice in China, we do not maintain business interruption insurance, nor do we maintain key-man life insurance. See “Risk Factors – Risks Related to Our Business and Industry – We have limited business insurance coverage, so that any uninsured occurrence of business disruption may result in substantial costs to us and the diversion of our resources, which could have an adverse impact on our results of operations and financial condition.”

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

Given the nature of our business, we do not operate any production facilities or otherwise impose any material threats to the environment. Therefore, we are not subject to significant environmental risks. As advised by our PRC Legal Advisor, we are not required to obtain any approvals or certificates for the principal businesses we engaged in that are applicable to the environmental laws and regulations in the PRC.

Nonetheless, we have made significant efforts towards environmental protection, mainly consisting of energy saving, carbon reduction and waste sorting. For example, we operate most of our businesses digitally and utilize cloud-based services to reduce the consumption of paper. We also implement waste sorting measures in our office spaces to reduce negative impact on the environment.

With regard to our health policy, we believe that having a balanced lifestyle is crucial to achieving a good mindset at work. Therefore, we encourage employees to maintain good mental and physical health by participating in sports and recreational activities. With respect to our safety policy, we require all employees to follow our safety rules and receive safety training.

Specifically, we have taken systematic measures to relieve COVID-19. For example, we distribute preventive materials, such as masks, to our employees. We also establish certain policies regarding safe distance, quarantine, self-monitoring and reporting system subject to the overall situation of COVID-19. We also adjust work arrangements to enable employees to work from home and collaborate remotely.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance in relation to health, work safety or environmental regulations and had not had any incident, or received any claim for personal or property damage made by our employees which had materially and adversely affected our financial condition or business operations.

PROPERTIES

We own one property in Haikou, Hainan province, China for investment purpose, which forms part of our property activities. The property comprises a 5-storey office building with a total gross floor space of approximately 3,169 m². A gross floor area of approximately 1,756 m² was leased to various independent third parties for office use with the latest term expiring on November 17, 2022. The remaining portion of the building is vacant. The land use rights of the building have been granted to us for a term expiring on January 14, 2050 for business, finance and office use. The property valuation report from AVISTA Valuation Advisory Limited as set out in Appendix III to this document, sets forth details of the building as of August 31, 2021. AVISTA Valuation Advisory Limited valued such property interest at an amount of RMB28.34 million as of August 31, 2021. For further details, please refer to Appendix III to this document.

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As of the Latest Practicable Date, we also rent a total of 11,728 m² of office space, including our corporate headquarter in Guangzhou and offices in Beijing and Shanghai. The relevant rental agreements provide lease expiration date ranging from 2022 to 2027.

Save for the above-mentioned property interest, pursuant to Rule 5.01A of the Listing Rules, as of June 30, 2021 no single property interest (i) that formed part of our property activities had a carrying amount representing 1% or more of our total assets; or (ii) that formed part of our non-property activities had a carrying amount representing 15% or more of our total assets.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

Legal Proceedings

As of the Latest Practicable Date, we are not a party to, and we are not aware of any threat of, any legal, arbitral or administrative proceeding, which, in our opinion, is likely to have a material and adverse effect on our business, financial conditions or results of operation. We may, from time to time, become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

Legal Compliance

During the Track Record Period and up to the Latest Practicable Date, we did not have any non-compliance incidents which our Directors believe would, individually or in the aggregate, have a material operational or financial impact on our business as a whole.

Social Insurance and Housing Provident Funds Contributions

During the Track Record Period and up to the Latest Practicable Date, we did not make full contributions to social insurance and housing provident funds for some of our employees with the relevant social insurance or housing provident funds authorities in the PRC.

The non-compliance occurred primarily because our officers in charge of the administration of our employee benefit scheme lacked a comprehensive understanding of the PRC laws and regulations, which resulted in an inadvertence in monitoring our compliance status.

Pursuant to PRC laws and regulations, if an employer fails to pay social insurance funds in full, the regulatory authority may order it to make full payment of the outstanding amount within a prescribed time frame, together with a late charge at the rate of 0.05% per day from the date on which the funds become due; if payment is not made within the prescribed time frame, the regulatory authority may impose a fine equivalent to one to three times of the overdue amounts.

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Pursuant to PRC laws and regulations, if an employer fails to deposit in full the housing provident funds within the prescribed time frame, it might be ordered by the housing provident funds regulatory authority to deposit the funds within another stipulated time frame; if it fails to deposit the fund within such time frame, the regulatory authority may apply to the people's court for enforcement.

We have taken the following rectification measures to prevent future occurrence of such non-compliance:

Training. Strengthen legal compliance training to our employees to increase their awareness of the relevant PRC laws and regulations and encourage their cooperation in making payments for social insurance and housing provident funds;

Policy. Formulate and distribute to our employees an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement; and

Review and record-keeping. Designate our human resources staff to monitor the payment status and prepare monthly reports of salary and contribution amounts, which shall be reviewed by our human resources department head and our finance department head to ensure that we make these payments and on time in accordance with relevant laws and regulations.

Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that: (i) we have obtained confirmations from most of the competent government authorities, confirming that during the Track Record Period, no administrative penalty was imposed for the underpaid amounts; (ii) during the Track Record Period and up to the Latest Practicable Date, we were never penalized by the competent government authorities regarding any non-compliance in relation to social insurance and housing provident funds; (iii) we were also not aware of any employee's complaints or demands for payment of social insurance or housing provident fund contributions; (iv) we have been actively communicating with the competent government authorities and undertake that, in the event that competent government authorities require us to make contributions within a stipulated time period or make supplementary contributions and overdue fines, we will duly comply on a timely manner; (v) we recorded a provision of RMB16.0 million for potential economic losses that may arise from our failure to make full contributions to social insurance and housing provident funds as of June 30, 2021.

Based on the foregoing, our PRC Legal Advisor is of the view that our business operation will not be materially and adversely affected by such non-compliance incident in relation to social insurance and housing provident funds. Accordingly, we believe that our business operation will not be materially and adversely affected by such non-compliance incident in relation to social insurance and housing provident funds.

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LICENSES, PERMITS AND REGULATORY APPROVALS

As advised by our PRC Legal Advisor, as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant regulatory authorities that are material to our operations in China, except as disclosed in this Document. See “Risk Factors – Risks Related to Our Business and Industry – If we fail to obtain or maintain the required regulatory licenses and approvals or if we fail to comply with laws and regulations applicable to our industry, our business, financial condition and results of operations may be materially and adversely affected.”

The following table sets out a list of material licenses and permits currently held by us:

License/Permit	Entity Holding the License/Permit	Expiration Date
ICP License	Guangzhou Quwan	February 23, 2026
ICP License	Guangzhou Shabake	April 13, 2026
ICP License	Hainan Yuyue	July 24, 2023
ICP License	Guangzhou Huancheng	March 23, 2026
ICP License	Beijing Quyue	February 3, 2026
ICP License	Shanghai Chenlong	June 15, 2025
ICP License	Shanghai Xiaojianbing	November 9, 2025
ICP License	Chengdu Spherical World	December 2, 2024
Internet Cultural Business License (“ICB License”)	Guangzhou Quwan	July 30, 2024
ICB License	Guangzhou Shabake	February 1, 2022
ICB License	Hainan Yuyue	August 16, 2024
ICB License	Guangzhou Huancheng	June 22, 2023
ICB License	Beijing Quyue	November 19, 2023
ICB License	Guangzhou Qujing	November 8, 2023
ICB License	Shanghai Chenlong	May 11, 2023
ICB License	Shanghai Xiaojianbing	October 16, 2023
ICB License	Chengdu Spherical World	December 15, 2022
Commercial Performance License	Guangzhou Quwan	March 7, 2023
Commercial Performance License	Guangzhou Huancheng	January 23, 2023
Commercial Performance License	Xiamen Saimailei	April 22, 2022
Radio and Television Production Operation License	Guangzhou Quwan	July 5, 2022
Radio and Television Production Operation License	Guangzhou Shabake	November 10, 2022
Audio-visual License	Huayu Tianxia	March 15, 2022

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROL

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies and procedures that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems. We continually review the implementation of our risk management and internal control policies and procedures to enhance their effectiveness and sufficiency.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We have established strict internal reimbursement and financial activities reporting policies. In particular, our financial department has implemented special inspection and verification procedures on invoices, bills, notes and other financial instruments, checking the legitimacy of the original instruments we receive and use. Our finance department also checks whether the amount and time provided on the face of the instrument match the relevant contracts. In addition, we provide regular training to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our legal, finance and business departments work close together to establish policies and procedures: (i) perform risk assessments and advise risk management strategies; (ii) improve business process efficiency and monitor internal control effectiveness; and (iii) promote risk awareness throughout our Company.

We maintain internal procedures to ensure that we have obtained all material requisite licenses, permits and approvals for our business operation, and our internal control team has establish policies and procedures to conduct regular reviews to monitor the status and effectiveness of those licenses and approvals. Our legal department works with relevant business departments to obtain requisite governmental approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

Regulatory Compliance and Legal Risk Management

Compliance risk refers to the risk of being subject to legal and regulatory sanctions, and the risk of major financial and reputational losses as a result of our failure to comply with relevant laws, regulations, rules and guidelines. Meanwhile, legal risk refers to the risk of legal liability arising from violations of laws and regulations, breaches of contracts, infringements on the legal rights of others or otherwise in connection with any contract or business activity in which we are involved.

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In order to manage our compliance and legal risk exposures effectively, we have designed and adopted strict internal rules and procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our legal department is responsible for reviewing and approving contracts, monitoring updates to and changes in laws and regulations applicable to our business and operations, and providing trainings on relevant laws, regulations, rules and guidelines tailored to our employees in business department, to ensure the ongoing compliance of our operations with relevant law.

Investment Risk Management

Our investment department is responsible for investment project sourcing, screening, execution and portfolio management. The department sources investment projects in accordance with our investment strategy, and conducts thorough pre-investment due diligence to assess the risks and potential of the investment projects.

Human Resource Risk Management

We have established internal control policies covering various aspects of human resources management such as recruiting, training, work ethic and legal compliance.

We provide regular trainings to our staff on work ethic, working procedures, internal policies, management, technical skills and other aspects that are relevant to their day-to-day work. Through these trainings, we ensure their skillset is up-to-date and meets our requirements.

We also require our staff to conform to high ethical standards. We distribute copies of our employee handbook and training slides to all of our employees. These materials contain, among other things, a code of conduct that each employee must comply with and case studies of ethical issues that employees may encounter in their day-to-day work.

We intend to adopt an anti-bribery and corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conduct and our anti-bribery and corruption measures. We also intend to make our internal reporting channel open and available for our staff to report any bribery and corruption acts. Any reported incidents and personnel will be investigated and appropriate measures will be taken.

Data and Technology System Risk Management

Sufficient maintenance, storage and protection of user data and other related information is critical to our business. We dedicate significant resources to developing and implementing programs designed to protect user privacy, promote a safe environment and ensure the security of user data. The user privacy policy on our platform describes our data use practices and how privacy works on our platform. Specifically, we collect personal information and data from users only with their prior consent, and we provide users with adequate notice as to the data being collected, undertake to manage and use the data collected in accordance with applicable laws and make reasonable efforts to prevent the unauthorized use, loss or leak of user data.

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We pay close attention to risk management relating to our information system as sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have designed and adopted strict internal procedures to ensure that our data is protected and that leakage and loss of such data are avoided. For example, we maintain servers that are hosted on cloud servers and implemented backup system to retain our core transaction data. We have formulated Guidelines on Data Security Classification and Classification (《數據安全分類分級指南》) in accordance with the requirements of the Data Security Law of the PRC (《中華人民共和國數據安全法》), the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), and, in light of our actual operation, the ISO27001 best management practices. The aforesaid guidelines set out the principles, methods and protection measures of data classification and classification, and have adopted measures of mandatory desensitization, anonymization, field-level encryption and total data backup for different classification levels to ensure data security. Additionally, we require employees to obtain prior approval to access data, and such approval shall be limited to the extent necessary for performing their duties, and all types of employees’ access and operation behaviors can be recorded and audited.

See also “– Data Privacy and Cybersecurity.”

Intellectual Property Rights Risk Management

We have devoted ourselves to establishing and maintaining intellectual property rights risk management and internal control procedures to protect our intellectual property rights and prevent liabilities resulting from infringement of third-party intellectual property rights. See “– Intellectual Properties.”

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain agreements with our Connected Persons. Following [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under the Listing Rules.

Details of the continuing connected transactions of the Group following the [REDACTED] are set out below.

CONNECTED PERSONS

Following the [REDACTED], the following parties, which have entered into certain written agreements with our Group, will be connected persons of our Group:

Name	Connected Relationship
Mr. Song	Executive Director, chairman of the Board, chief executive officer of our Company and substantial shareholder of our Company and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Chen Guangyao	Executive Director and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Mr. Song Guowen	Mr. Song Guowen is the brother of Mr. Song. Therefore, he is an associate of Mr. Song, our executive Director, and therefore a connected person of our Company under Rule 14A.07(4) of the Listing Rules
Weiqu Investment	Mr. Song is the general partner of these Registered Shareholders. Therefore, they are associates of Mr. Song, our executive Director, and connected persons of our Company under Rule 14A.07(4) of the Listing Rules
Guiyang Shengqu	
Wenzhou Huanqu	

CONNECTED TRANSACTIONS

Name	Connected Relationship
Linxia Shouqu	Its limited partnership interest is held as to 30% or more by Mr. Du Guo, and Mr. Song is the general partner of this Registered Shareholder. Therefore it is an associate of Mr. Du Guo and Mr. Song, connected persons of our Company, and a connected person under Rule 14A.07(4) of the Listing Rules
Guangzhou Quyí	Mr. Song Guowen, brother of Mr. Song, is the general partner of this Registered Shareholder. Therefore, it is an associate of Mr. Song, a connected person of our Company, and a connected person under Rule 14A.07(4) of the Listing Rules

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background for the Contractual Arrangements

As disclosed in the section headed “Contractual Arrangements” of this Document, due to regulatory restrictions on foreign ownership in the PRC, we are prohibited from directly owning any equity interest or restricted from owning more than 50% of equity interest in Guangzhou Quwan. Therefore, in order for our Group to effectively control and enjoy the entire economic benefit of Guangzhou Quwan, a series of Contractual Arrangements have been entered into among Zhuhai Huanquhui, Guangzhou Quwan, the Registered Shareholders and the general partners of the Partnership Shareholders (as the case may be). The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits from Guangzhou Quwan in consideration for the services provided by Zhuhai Huanquhui to Guangzhou Quwan; (ii) exercise effective control over Guangzhou Quwan; and (iii) hold an exclusive option to purchase all or part of the equity interests and assets in Guangzhou Quwan when and to the extent permitted by PRC law.

Principal Terms of the Transactions

The Contractual Arrangements consist of six types of agreements: (a) the Exclusive Technical Service Agreement; (b) Shareholder Voting Rights Proxy Agreement; (c) the Powers of Attorney; (d) the Exclusive Call Option Agreement; (e) the Equity Pledge Agreements; and (f) the Spousal Consent Letter(s). Please see the section headed “Contractual Arrangements” in this Document for detailed terms of the Contractual Arrangements.

CONNECTED TRANSACTIONS

Listing Rules implications

For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of 'connected person', our Consolidated Affiliated Entities will be treated as our Company's wholly-owned subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Group as applicable under the Listing Rules (excluding for this purpose, the Consolidated Affiliated Entities themselves). Therefore, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Group under the Listing Rules upon [REDACTED].

The transactions will be subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reasons for the Waiver Application and the View of Our Directors on the Continuing Connected Transaction

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our 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, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

In addition, given the Contractual Arrangements were entered into prior to the [REDACTED] and are disclosed in this Document, and [REDACTED] of our Company will participate in the [REDACTED] on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent shareholders' approval requirements in respect thereof immediately after [REDACTED] would add unnecessary administrative costs to our Company.

CONNECTED TRANSACTIONS

APPLICATION FOR AND CONDITIONS FOR WAIVER

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and 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 [REDACTED] on the Stock Exchange subject however to the following conditions:

- (a) *No change without independent non-executive Directors’ approval* – No change to the Contractual Arrangements (including with respect to any fees payable to Zhuhai Huanquhui thereunder) will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders’ approval* – Save as described in “(d) Renewal and Reproduction” below, no change to the agreements constituting the Contractual Arrangements will be made without the approval of our Company’s independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement, circular or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in “Ongoing Reporting and Approvals” below) will however continue to be applicable.
- (c) *Economic benefits flexibility* – The Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by Guangzhou Quwan through (i) our Group’s option (if and when so allowed under the applicable PRC laws) to acquire all or part of the entire equity interests in Guangzhou Quwan for nominal consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the entire profit generated by Guangzhou Quwan is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Zhuhai Huanquhui by Guangzhou Quwan under the Exclusive Technical Service Agreement, and (iii) the Group’s right to control the management and operation of, in substance, all of the voting rights of Guangzhou Quwan.
- (d) *Renewal and reproduction* – On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Guangzhou Quwan, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including

CONNECTED TRANSACTIONS

branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) *Ongoing reporting and approvals* – Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by Guangzhou Quwan to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and Guangzhou Quwan during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Guangzhou Quwan to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities will be treated as our Company’s wholly-owned subsidiaries, and at the same time, the

CONNECTED TRANSACTIONS

directors, chief executive officers or substantial shareholders of the Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Group (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Guangzhou Quwan will undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, Guangzhou Quwan will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the connected transactions.

DIRECTORS' AND JOINT SPONSORS' VIEW

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our 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, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

The Joint Sponsors are of the view that: (i) the continuing connected transactions set out above have been and will be entered into in the Company's ordinary and usual course of business on normal commercial terms or better, on terms that are fair and reasonable, and in the interest of the Company and its Shareholders as a whole; and (ii) it is normal business practice for the Contractual Arrangements to be of a term greater than three years.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

As of the date of this Document, the Board of Directors of our Company consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors.

The table below sets forth certain information in respect of the members of the Board of Directors of our Company:

Name	Age	Position	Date of Joining our Group	Date of Appointment as Director	Roles and Responsibilities
Executive Directors					
Mr. Song Ke (宋克)	36	Chairman of the Board, Executive Director and chief executive officer	December 2014	May 2019	Responsible for the overall management, business strategies and sustainable development of the Group.
Mr. Chen Guangyao (陳光堯)	40	Executive Director and senior vice president	December 2014	November 2020	Responsible for the overall business operations, commercial suitability and sustainability of products and services of <i>TT Chat</i> App in China
Mr. Du Guo (杜國)	48	Executive Director	November 2017	November 2020	Responsible for supervising and providing strategic advice on the business operations of the Group

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining our Group	Date of Appointment as Director	Roles and Responsibilities
Non-executive Director					
Mr. Wang Huadong (王華東)	36	Non-executive Director	November 2020	November 2020	Responsible for participating in formulating the business strategies of the Group
Independent Non-executive Directors					
Mr. Mak Yau Kee Adrian (麥佑基)	61	Independent Non-executive Director	[Date of this Document]	[Date of this Document]	Responsible for supervising and providing independent judgment to the Board
Mr. Chen Zhaoming Beck (陳兆明)	39	Independent Non-executive Director	[Date of this Document]	[Date of this Document]	Responsible for supervising and providing independent judgment to the Board
Mr. He Dongdong (賀東東)	53	Independent Non-executive Director	[Date of this Document]	[Date of this Document]	Responsible for supervising and providing independent judgment to the Board

Executive Directors

Mr. Song Ke (宋克), aged 36, is one of our founders, our chief executive officer, the chairman of our Board and an executive Director of our Company. Mr. Song has been the chairman of the board and the general manager of Guangzhou Quwan since its incorporation in December 2014. He is primarily responsible for the overall management, business strategies and sustainable development of the Group.

Mr. Song, as a serial entrepreneur, has over 8 years of experience in the internet and technology industry. Prior to founding our Group, Mr. Song founded Guangzhou Yiyu Network Technology Co., Ltd., a game distribution company, and served as the CEO from September 2013.

Mr. Song was honored as one of the “2017 Top Ten Rising Figures in China’s Game Industry” by China Audio and Video Engineering Committee in December 2017, and one of the “One-Hundred Leading Entrepreneurs” by Bureau of Statistics of Guangdong Province in March 2020. Mr. Song has been serving as the vice president of Guangdong Internet Society and Guangdong Game Industry Association since September 2020 and April 2020, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Guangyao (陳光堯), aged 40, is an executive Director and senior vice president of our Group. Mr. Chen co-founded our Group with Mr. Song Ke in December 2014 and has served as the senior vice president of Guangzhou Quwan since then and a supervisor of Guangzhou Quwan since June 2018. He is primarily responsible for the overall business operations, commercial suitability and sustainability of products and services of *TT Chat* App in China.

Mr. Chen has over 18 years’ experience in the software and internet technology industry. He joined Tencent (HKEX:0700) in July 2003 as a technical manager and worked as a senior technical manager in Weixin group from July 2008 until July 2012. Prior to co-founding our Group, he served as the technical director of JOYY Inc. (Nasdaq: YY), a global video-based social media company, from August 2012 to June 2014. Mr. Chen was honored “Man of Influence During 10 Years in the Software Industry” by the Guangzhou Software Industry Association.

Mr. Chen received his bachelor’s degree in computer science and technology from South China University of Technology in the PRC in July 2003.

Mr. Du Guo (杜國), aged 48, is an executive Director of our Company. Mr. Du joined our Group in November 2017 and served as a vice president of Guangzhou Quwan from November 2017 to June 2018. Mr. Du has been serving as a director of Guangzhou Quwan since June 2018. Mr. Du was appointed as a director of the Company in November 2020. He is primarily responsible for supervising and providing strategic advice on the business operations of the Group.

Prior to joining us, Mr. Du served as the managing partner and vice president of Shanshan Chuanghui Investment Management Co. Ltd. from February 2010 to October 2017.

Mr. Du received a bachelor’s degree in petroleum engineering from China University of Petroleum – Beijing in the PRC through remote courses in January 2015.

Non-executive Director

Mr. Wang Huadong (王華東), aged 36, joined our Group as a Director of the Company in November 2020 and was re-designated as our non-executive Director in October 2021. He is primarily responsible for participating in formulating the business strategies of the Group.

Mr. Wang has been serving as our director since November 2020. He has over 14 years’ experience in Internet technology and finance industry. Mr. Wang worked at Matrix Partners China, a leading technology venture capital firm in China, since September 2010 and has been a partner since April 2014. Prior to joining Matrix Partners China, Mr. Wang served as a senior editor for Sohu.com (Nasdaq: SOHU), focusing mainly on report of new technology and startups, from August 2008 to August 2010. Mr. Wang served as an operation specialist at Yahoo China from July 2007 to July 2008.

Mr. Wang received a bachelor’s degree in information management and information system from Northwestern Polytechnical University in the PRC, in July 2007.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. MAK Yau Kee Adrian (麥佑基), aged 61, was appointed as an independent non-executive Director in [●], with effect from the date of this Document. Mr. Mak is primarily responsible for supervising and providing independent judgment to the Board.

Mr. Mak is an independent director of Tencent Music Entertainment Group (NYSE: TME), a company listed on the New York Stock Exchange, and is a member its audit committee since October 2020. He joined Television Broadcasts Limited (HKEx: 00511) in 2004 where he currently serves as the Chief Financial Officer, the Company Secretary and a member of the Investment Committee and the Executive Committee of its board of directors. Prior to that, Mr. Mak was CFO of Global Digital Creations Holdings Limited (HKEx: 08271), a company listed on the GEM of the Stock Exchange, between 2002 and 2004, and CFO of CyberCity Holdings Limited between 2000 and 2002. Between 1992 and 2000, Mr. Mak served as an associate director in the Corporate Finance Division at the Securities and Futures Commission in Hong Kong. Between 1983 and 1992, Mr. Mak worked at various offices of KPMG (Hong Kong, London and Birmingham).

Mr. Mak is a fellow member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and a fellow member of the Institute of Chartered Accountants in England and Wales.

Mr. Mak obtained a bachelor’s degree in chemical engineering from the University of Birmingham in the United Kingdom in July 1983.

Mr. Chen Zhaoming (陳兆明), aged 39, was appointed as an independent non-executive Director in [●], with effect from the date of this Document. Mr. Chen is primarily responsible for supervising and providing independent judgment to the Board.

Since December 2018, Mr. Chen has served as the chief financial officer of Dada (Nasdaq: DADA), a Nasdaq-listed local on-demand retail and delivery platform in China. From December 2012 to November 2018, Mr. Chen served as the chief financial officer of Baozun (Nasdaq: BZUN; HKEx:9991), an e-commerce service partner in China. Prior to that, Mr. Chen served as the finance controller at LaShou Group, an online social commerce company in China, from April 2011 to December 2012. From July 2004 to April 2011, Mr. Chen worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP as an audit manager. Mr. Chen currently serves as an independent director of DouYu (Nasdaq: DOYU), a Nasdaq-listed game-centric live streaming platform in China.

Mr. Chen obtained a bachelor’s degree in economics from Fudan University in the PRC, in June 2004. Mr. Chen is a member of Chinese Institute of Certified Public Accountants and a CFA charter holder.

DIRECTORS AND SENIOR MANAGEMENT

Mr. He Dongdong (賀東東), aged 53, was appointed as an independent non-executive Director in [●], with effect from the date of this Document. Mr. He is primarily responsible for supervising and providing independent judgment to the Board.

Mr. He is a co-founder of Rootcloud Technology Co., Ltd. (樹根互聯股份有限公司) and has been serving as the chief executive officer since June 2016. Before starting up his own company, Mr. He has been serving as a senior management in Sany Group Co., Ltd. (三一重工股份有限公司) (shanghai stock exchange: 600031) for more than 14 years. He experienced different leadership position including vice president, group senior vice president and chief information officer between March 2003 and November 2017. Mr. He has been serving as the vice president of Alliance of Industrial Internet (工業互聯網產業聯盟) since February 2016, and has been a member of ChinaInfo100 (中國信息化百人會) since July 2020.

Mr. He obtained a bachelor’s degree in engineering from Shanghai Jiao Tong University in the PRC, in July 1989 and a master’s degree in business administration from China Europe International Business School in the PRC, in September 2003.

SENIOR MANAGEMENT

The senior management team of our Group comprises, in addition to our executive Directors, the following persons listed below:

Name	Age	Position/Title	Date of Joining our Group	Roles and Responsibilities
Mr. Song Ke (宋克)	36	Executive Director and chairman of the Board, chief executive officer	December 2014	Responsible for the overall management, business strategies and sustainable development of the Group
Mr. Chen Guangyao (陳光堯)	40	Executive Director and senior vice president	December 2014	Responsible for the overall business operations, commercial suitability and sustainability of products and services of <i>TT Chat</i> App in China

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position/Title	Date of Joining our Group	Roles and Responsibilities
Mr. Sha Dachuan (沙大川)	35	Chief Financial Officer, Joint Company Secretary	October 2020	Responsible for the management of finance and legal compliance of our Group
Mr. Xie Rui (謝睿)	42	Chief Technology Officer	February 2016	Responsible for the technology development and engineering of our Group in the PRC and International market

Mr. Song Ke (宋克), aged 36, is an executive Director and the chief executive officer. For details of his biography, see “– Board of Directors.”

Mr. Chen Guangyao (陳光堯), aged 40, is an executive Director and the senior vice president. For details of his biography, see “– Board of Directors.”

Mr. Sha Dachuan (沙大川), aged 35, was appointed as our chief financial officer in October 2020. He is primarily responsible for the management of finance and legal compliance of our Group.

Prior to joining us, Mr. Sha served as the chief financial officer of HUYA Inc. (NYSE: HUYA), a leading game live streaming platform in China, from September 2017 to December 2019. From May 2015 to August 2017, Mr. Sha served as a director of Greenwoods Asset Management. From August 2013 to July 2014, Mr. Sha worked at China Media Capital. Before his private equity career, Mr. Sha worked in the Investment Banking Division of Goldman Sachs from August 2011 to August 2013.

Mr. Sha received a bachelor’s degree in electronic engineering and a bachelor’s degree in accounting from Fudan University in the PRC in July 2008 and July 2009, respectively.

Mr. Xie Rui (謝睿), aged 42, was appointed as our chief technology officer in October 2021. Mr. Xie joined our Group in February 2016 as the research and development director of Guangzhou Quwan and served as the vice president and chief technology officer of Guangzhou Quwan since May 2020. He is primarily responsible for the technology development and engineering of our Group in the PRC and International market.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our company, Mr. Xie served as the technical director of JOYY Inc. (Nasdaq: YY), a global video-based social media company, from May 2010 to January 2016. He also co-founded Guangzhou Bading Network Technology Co., Ltd. in November 2007 as the chief technology officer until May 2010 when his company was acquired by JOYY Inc.

Mr. Xie received his bachelor’s degree in computer software technology from Sun Yat-sen University in the PRC, in June 2001.

Directors’ and Senior Management’s Interests

Save as disclosed above in this section, none of our Directors or senior management has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this Document.

For the purpose of enforcing the judgment of a civil litigation involving Mr. Du Guo, the Zhengzhou Municipal High and New Tech Development Zone People’s Court, Henan Province issued a restriction on consumption order to Mr. Du Guo on November 26, 2018 to restrict high consumption by Mr. Du Guo. The judgment amount of the civil litigation was fully paid by Mr. Du Guo in January 2019. Thus, the restriction on high consumption imposed on Mr. Du Guo was lifted. The litigation was not related to the business or operation of the Group and had no material adverse impact on the business operation and financial condition of the Group.

Save as disclosed above in this section, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

As of the Latest Practicable Date, save for the interests in the Shares of our Company held indirectly by Mr. Song, which are disclosed in the section headed “Appendix V – Statutory and General Information – C. Further Information about Our Directors – 3. Disclosure of Interests” in this Document, none of our Directors held any interest in the securities within the meaning of Part XV of the SFO.

Save as disclosed above in this section, as of the Latest Practicable Date, none of our Directors or senior management is related to other Directors or senior management of our Company.

JOINT COMPANY SECRETARIES

Mr. Sha Dachuan (沙大川), aged 35, was appointed as a joint company secretary in October 2021. For details of his biography, see “– Senior Management.”

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ng Wai Kam (伍偉琴) is one of our joint company secretaries. Ms. Ng is currently a manager of Corporate Services of Tricor Services Limited, where she is responsible for providing corporate secretarial and compliance services to listed issuers at the Stock Exchange and other multinational, private and offshore companies. Ms. Ng has more than 9 years of experience in the company secretary profession. Ms. Ng is currently the company secretary/joint company secretaries of two listed companies on the Stock Exchange, namely, Hebei Yichen Industrial Group Corporation Limited (stock code: 1596) and Genertec Universal Medical Group Company Limited (stock code: 2666).

Our Company has been granted a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Sha may be appointed as a joint company secretary of our Company. However, the waiver can be revoked if there are material breaches of the Listing Rules by our Company. For details, please see the section headed “Waivers and Exemptions” in this Document.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind and contribution to the pension scheme. We determine the compensation of our Directors based on each Director’s responsibilities, qualification, position and seniority. Each of our independent non-executive Directors has signed an appointment letter with us for a term of three years effective upon the date of this Document. For more information on the appointment letters, please refer to the section headed “Appendix V – Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 2. Particulars of Service Contracts” in this Document.

The aggregate amount of remuneration of our Directors (including salaries, allowances, benefits in kind, contribution to the pension scheme and other share-based compensation) for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021 were approximately RMB38.12 million, RMB12.96 million, RMB99.89 million and RMB148.80 million, respectively.

It is estimated that remuneration and benefits in kind (excluding any discretionary bonus which may be paid to any Directors) equivalent to approximately RMB151.54 million in aggregate will be paid and granted to our Directors by us in respect of the financial year ending December 31, 2021 under arrangements in force at the date of this Document.

The aggregate amount of remuneration of our five highest paid individuals (including three Directors) for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 were approximately RMB47.21 million, RMB17.64 million, RMB137.79 million and RMB225.34 million, respectively.

During the Track Record Period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors, past Directors or the five highest

DIRECTORS AND SENIOR MANAGEMENT

paid individuals for the Track Record Period for the loss of office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

For additional information on Directors’ remuneration during the Track Record Period as well as information on the highest paid individuals, please see Note 9 of the Accountant’s Report set out in Appendix I to this Document. For the details of the stock options that we granted to our Directors and senior management, please see the section headed “Appendix V – Statutory and General Information – D. Employee Incentive Plan”.

Save as disclosed above in this section and the sections headed “Financial Information”, “Appendix I – Accountant’s Report” and “Appendix V – Statutory and General Information” in this Document, no other payments have been paid or are payable in respect of the Track Record Period to our Directors by our Group.

EMPLOYEE INCENTIVE PLAN

We adopted the 2020 Global Employee Incentive Plan. For further details, please see the section headed “Appendix V – Statutory and General Information – D. Employee Incentive Plan” in this Document.

CORPORATE GOVERNANCE

We have established the following committees in our Board of Directors: an Audit Committee, a Remuneration Committee and a Nomination Committee. The committees operate in accordance with terms of reference established by our Board of Directors.

Audit Committee

Our Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Mak Adrian Yau Kee, Mr. Chen Zhaoming, and Mr. He Dongdong. Mr. Mak Adrian Yau Kee and Mr. Chen Zhaoming are the co-chairmen of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to assist our Board of Directors by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities assigned by our Board of Directors.

Remuneration Committee

Our Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee consists of two independent non-executive Directors,

DIRECTORS AND SENIOR MANAGEMENT

namely, Mr. Chen Zhaoming and Mr. He Dongdong, and one executive Director, namely, Mr. Song. Mr. He Dongdong is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, without limitation, making recommendations to the Board of Directors on our policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration, determining the specific remuneration packages of all Directors and senior management and reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board of Directors from time to time.

Nomination Committee

We have established a nomination committee in compliance with the Corporate Governance Code. The primary duties of the nomination committee are to make recommendations to the Board regarding the appointment of Directors and Board succession. The Nomination Committee comprises one executive Director, namely Mr. Song, and two independent non-executive Directors, namely Mr. Chen Zhaoming and Mr. Mak Adrian Yau Kee. Mr. Song is the chairman of the committee.

Corporate Governance Code

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the roles of chairman and chief executive should be separate and should not be performed by the same individual. We do not have separate Chairman of the Board and CEO and Mr. Song, the Chairman of our Board and CEO, currently performs these two roles. Our Board believes that, in view of his experience, personal profile and his roles in our Company as mentioned above, Mr. Song Ke is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as our CEO. Our Board also believes that the combined role of Chairman of the Board and CEO can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Our Board will continue to review and consider splitting the roles of Chairman of the Board and the CEO at a time when it is appropriate by taking into account the circumstances of our Group as a whole. We aim to implement a high standard of corporate governance, which is crucial to safeguard the interests of our Shareholders. To accomplish this, we expect to comply with the Corporate Governance Code after the [REDACTED] save for the matter disclosed above.

Board Diversity Policy

We are committed to promote diversity in our Company to the extent practicable by taking into consideration a number of factors in respect of our corporate governance structure.

DIRECTORS AND SENIOR MANAGEMENT

We have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, language, cultural background, educational background, industry experience and professional experience. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of software and internet technology, business management, finance, investment and accounting, etc. They obtained degrees in various areas including computer science and technology, information management, economics, engineering, and business administration. Furthermore, our Board has a relatively wide range of ages, ranging from 36 years old to 61 years old. The Board of Directors is of the view that our Board satisfies the Board Diversity Policy. Nevertheless, in recognizing the particular importance of gender diversity, our Company confirms that our Nomination Committee will, within three years from the [REDACTED], identify and recommend one female candidate to our Board for consideration on her appointment as Director of our Company. Our Directors are of the view that such strategy will offer chances for our Board to identify capable female candidate to be nominated as a member of our Board with an aim to providing our Board with a pipeline of female candidates to further enhance the gender diversity in our Board in the long run.

We are also committed to adopting a similar approach to promote diversity within the management (including but not limited to the senior management) of our Company to enhance the effectiveness of corporate governance of our Company as a whole.

Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant codes governing board diversity under the Corporate Governance Code. Subsequent to the [REDACTED], our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

Compliance Adviser

We have appointed Rainbow Capital (HK) Limited as our Compliance Adviser pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Adviser will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Adviser will advise our Company in certain circumstances including: (a) before the publication of any regulatory announcement, circular, or financial report; (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases; (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this Document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this Document; and (d) where the Stock Exchange makes an inquiry to our Company under Rule 13.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

The term of appointment of our Compliance Adviser shall commence on the [REDACTED] and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

COMPETITION

Each of our Directors confirms that as of the Latest Practicable Date, he did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business and requires disclosure under Rule 8.10 of the Listing Rules.

From time to time our non-executive Directors may serve on the boards of both private and public companies within the gaming industry. However, as these non-executive Directors are neither our Controlling Shareholders nor members of our executive management team, we do not believe that their interests in such companies as directors would render us incapable of carrying on our business independently from the other companies in which these non-executive Directors may hold directorships from time to time.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised, the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares as of the Latest Practicable Date ⁽¹⁾	Approximate percentage of voting rights in our Company upon the completion of the [REDACTED] ⁽²⁾ (%)
Mr. Song ⁽³⁾	Founder of a trust; Interest in controlled corporation	51,892,878	[REDACTED]
	Interest of a party to an agreement regarding interest in the Company	22,546,944	[REDACTED]
Cantrust (Far East) Limited ⁽³⁾	Trustee	51,892,878	[REDACTED]
Future Exploration ⁽³⁾	Interest in controlled corporation	51,892,878	[REDACTED]
Funplus ⁽³⁾	Beneficial interest	34,169,799	[REDACTED]
Vanker ⁽³⁾	Beneficial interest	17,723,079	[REDACTED]
Eric Li ⁽⁴⁾	Interest in controlled corporation	20,138,532	[REDACTED]
Parallel Universes Asset Management Limited ⁽⁴⁾	Interest in controlled corporation	10,394,081	[REDACTED]
Skycus China Fund, L.P. ⁽⁴⁾	Beneficial interest	10,394,081	[REDACTED]
Duckling Fund, L.P. ⁽⁴⁾	Beneficial interest	9,744,451	[REDACTED]
Grandiflora Hook GP Limited ⁽⁴⁾	Interest in controlled corporation	9,744,451	[REDACTED]
Matrix China VI GP GP, Limited ⁽⁵⁾	Interest in controlled corporation	16,240,751	[REDACTED]
Matrix China Management VI, L.P. ⁽⁵⁾	Interest in controlled corporation	16,240,751	[REDACTED]
Matrix Partners China VI, L.P. ⁽⁵⁾	Interest in controlled corporation	16,240,751	[REDACTED]
Matrix Partners China VI Hong Kong Limited ⁽⁵⁾	Beneficial interest	16,240,751	[REDACTED]
Mr. Song Guowen ⁽⁶⁾	Interest in controlled corporation	10,440,854	[REDACTED]
Dream League Limited ⁽⁶⁾	Beneficial interest	10,440,854	[REDACTED]
Mr. Chen Guangyao ⁽⁷⁾	Interest in controlled corporation	10,006,722	[REDACTED]
Peerless Hero ⁽⁷⁾	Beneficial interest	10,006,722	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) The number of Shares held assuming that all of the Preferred Shares have been converted into the Shares on a one-to-one basis.
- (2) Based on the assumption that the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Plan.
- (3) Funplus, a company incorporated in the BVI with limited liability, holds 34,169,799 Shares of our Company. Vanker, a company incorporated in the BVI with limited liability, holds 17,723,079 Series Angel Preferred Shares. Both of Funplus and Vanker are wholly owned by Future Exploration, which is in turn wholly owned by Cantrust (Far East) Limited as the trustee of the SK Family Trust, of which Mr. Song is the founder and settlor and the beneficiaries of which are Mr. Song and his family members. Each of Mr. Song, Cantrust (Far East) Limited and Future Exploration is deemed to be interested in the 34,169,799 Shares held by Funplus and 17,723,079 Series Angel Preferred Shares held by Vanker.

On September 23, 2021, Mr. Song entered into voting proxy agreements with: (i) Mr. Chen Guangyao and Peerless Hero as to the voting rights of 10,006,722 ordinary Shares in our Company held by Peerless Hero, (ii) Mr. Du Guo and Yun Qu as to the voting rights of 7,549,852 ordinary Shares in our Company held by Yun Qu, and (iii) Mr. Qiu Zhizhao and Fiery Dragon as to the voting rights of 4,990,370 ordinary Shares in our Company held by Fiery Dragon, respectively. Pursuant to the Voting Proxy Agreements, Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to the above Shares held by Peerless Hero, Yun Qu and Fiery Dragon. Please see the section headed “Relationship with the Controlling Shareholders” for more details.

- (4) Skycus China Fund, L.P., an exempted limited partnership registered under the laws of Cayman Islands, holds 10,394,081 Series A Preferred Shares of our Company. Its general partner is Parallel Universes Asset Management Limited and it is ultimately controlled by Eric Li. Therefore, Parallel Universes Asset Management Limited and Eric Li are deemed to be interested in the Shares held by Skycus China Fund, L.P.

Duckling Fund, L.P., an exempted limited partnership registered under the laws of Cayman Islands, holds 9,744,451 Series B Preferred Shares of our Company. Its general partner is Grandiflora Hook GP Limited and it is ultimately controlled by Eric Li. Therefore, Grandiflora Hook GP Limited and Eric Li are deemed to be interested in the Shares held by Duckling Fund, L.P.

- (5) Matrix Partners China VI Hong Kong Limited, a company incorporated in Hong Kong, holds 12,992,601 Series A Preferred Shares and 3,248,150 Series B Preferred Shares of our Company. Matrix Partners China VI Hong Kong Limited is controlled by Matrix Partners China VI, L.P., which holds 90.23% of interest of Matrix Partners China VI Hong Kong Limited. The general partner of Matrix Partners China VI, L.P. is Matrix China Management VI, L.P.. The general partner of Matrix China Management VI, L.P. is Matrix China VI GP GP, Ltd. Therefore, Matrix Partners China VI, L.P., Matrix China Management VI, L.P. and Matrix China VI GP GP, Ltd are deemed to be interested in the Shares held by Matrix Partners China VI Hong Kong Limited. Timothy A. Barrows, David Ying Zhang, David Su, Harry Ho Kee Man are directors of Matrix China VI GP GP, Ltd. and are deemed to have shared investment voting power over the shares held by Matrix Partners China VI, L.P. Timothy A. Barrows, David Ying Zhang, David Su and Harry Ho Kee Man are also deemed to have shared investment voting power over the shares held by Matrix Partners China V, L.P., which is the controlling shareholder of Matrix Partners China V Hong Kong Limited, a minority shareholder of the Company holding 2,521,935 ordinary Shares.
- (6) Dream League Limited, a company incorporated in the BVI with limited liability, holds 10,440,854 Series Angel Preferred Shares of our Company. Guowen Song, Mr. Song’s brother, holds 51.02% of the shares in Dream League Limited. Therefore, Guowen Song is deemed to be interested in the Shares held by Dream League Limited.
- (7) Peerless Hero, a company incorporated in the BVI with limited liability, holds 10,006,722 ordinary shares of our Company. It is wholly owned by Mr. Chen Guangyao. Mr. Song is entitled to exercise the voting right attached to the 10,006,722 ordinary shares pursuant to the Voting Proxy Agreement. See the section headed “Relationship with the Controlling Shareholders” for details.

SUBSTANTIAL SHAREHOLDERS

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan):

	Number of Shares	Aggregate nominal value of Shares (US\$)
Authorized share capital as of the date of this Document ⁽¹⁾	500,000,000	US\$50,000
Shares in issue as of the date of this Document (assuming the Series Angel Preferred Shares, Series A Preferred Shares, Series B Preferred Shares, Series B+ Preferred Shares and Series C Preferred Shares are converted into ordinary shares on a 1:1 basis ⁽²⁾)	144,334,069	US\$14,433.41
Shares to be issued under the [REDACTED]	[REDACTED]	[REDACTED]
Shares in issue immediately following the [REDACTED]	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Total	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Notes:

- (1) The authorized share capital of our Company was US\$50,000 divided into 420,628,721 Shares, 28,163,933 Series Angel Preferred Shares, 23,386,682 Series A Preferred Shares, 12,992,601 Series B Preferred Shares, 5,197,041 Series B+ Preferred Shares and 9,631,022 Series C Preferred Shares.
- (2) At the date of this Document, 64,962,790 Shares, 28,163,933 Series Angel Preferred Shares, 23,386,682 Series A Preferred Shares, 12,992,601 Series B Preferred Shares, 5,197,041 Series B+ Preferred Shares and 9,631,022 Series C Preferred Shares are issued and fully paid up. Each Series Angel Preferred Share, Series A Preferred Share, Series B Preferred Share, Series B+ Preferred Share and Series C Preferred Share will be converted into ordinary share at the conversion ratio of 1:1 by way of redesignation immediately prior to the completion of the [REDACTED].

ASSUMPTIONS

The above table assumes that the [REDACTED] becomes unconditional and Shares are issued pursuant to the [REDACTED]. The above table also does not take into account any Shares which may be issued or repurchased by us under the general mandates granted to our Directors as referred to below.

SHARE CAPITAL

RANKING

The [REDACTED] will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this Document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this Document.

POTENTIAL CHANGES TO SHARE CAPITAL

Circumstances under which general meetings are required

Upon completion of the [REDACTED], our Company has only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Act and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its share capital, (ii) consolidate and divide its share capital into shares of larger amount, (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Act reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law – 2 Articles of Association – 2.5 Alteration of capital” in Appendix IV to this Document for further details.

Employee incentive

We adopted the 2020 Global Employee Incentive Plan. Please see the section headed “Statutory and General Information – D. Employee Incentive Plan” in Appendix V to this Document for further details.

General mandate to issue Shares

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number of not more than the sum of:

- 20% of the number of Shares in issue immediately following completion of the [REDACTED]; and
- the total number of Shares repurchased by us under the authority referred to in the paragraph headed “– General mandate to repurchase Shares” in this section.

SHARE CAPITAL

This general mandate to issue Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information – A. Further Information about our Group – 3. Resolutions of our Shareholders” in Appendix V to this Document for further details of this general mandate to allot, issue and deal with Shares.

General mandate to repurchase Shares

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our own securities with a total number of up to [REDACTED]% of the total number of our Shares in issue immediately following the completion of the [REDACTED].

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are [REDACTED] (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information – A. Further Information about our Group – 6. Repurchases of our Own Securities” in Appendix V to this Document.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information – A. Further Information about our Group – 3. Resolutions of our Shareholders” in Appendix V to this Document for further details of this general mandate to repurchase Shares.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Mr. Song held approximately 35.95% of the total issued shares of our Company indirectly through SK Family Trust, Future Exploration, Funplus and Vanker. Funplus and Vanker held 34,169,799 ordinary Shares and 17,723,079 Series Angel Preferred Shares, respectively, representing approximately 23.67% and 12.28% of the total issued shares of our Company, respectively. Both of Funplus and Vanker are wholly owned by Future Exploration, which is in turn wholly owned by Cantrust (Far East) Limited as the trustee of the SK Family Trust, of which Mr. Song is the founder and settlor and the beneficiaries of which are Mr. Song and his family members. Future Exploration, Funplus and Vanker, being the investment holding companies, are not engaged in other business activities.

In addition to the above, as of the Latest Practicable Date, Mr. Song is also entitled to exercise in aggregate 15.62% of the voting rights of our Company, pursuant to three voting proxy agreements (each a “**Voting Proxy Agreement**”, together, the “**Voting Proxy Agreements**”) dated September 23, 2021, entered into among Mr. Song and: (i) Mr. Chen Guangyao and Peerless Hero as to the voting rights of 10,006,722 ordinary Shares in our Company held by Peerless Hero, representing 6.93% of the voting rights of our Company as of the Latest Practicable Date; (ii) Mr. Du Guo and Yun Qu as to the voting rights of 7,549,852 ordinary Shares in our Company held by Yun Qu, representing 5.23% of the voting rights of our Company as of the Latest Practicable Date; and (iii) Mr. Qiu Zhizhao and Fiery Dragon as to the voting rights of 4,990,370 ordinary Shares (each of the 10,006,722 ordinary Shares, 7,549,852 ordinary Shares and 4,990,370 ordinary Shares, the “**Subject Shares**”) in our Company held by Fiery Dragon, representing 3.46% of the voting rights of our Company as of the Latest Practicable Date, respectively. Pursuant to the Voting Proxy Agreements, Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to the above Shares held by Peerless Hero, Yun Qu and Fiery Dragon. Each of the Voting Proxy Agreements will be terminated: (i) with the written consent of the parties therein; or (ii) when Mr. Chen Guangyao, Mr. Du Guo or Mr. Qiu Zhizhao (as the case may be) or his close associate ceases to hold any of the Subject Shares directly or indirectly.

Therefore, as of the Latest Practicable Date, Mr. Song, through SK Family Trust, Future Exploration, Funplus and Vanker and by virtue of the Voting Proxy Agreements, controlled the voting rights of 74,439,822 Shares of the Company, representing approximately 51.57% of the total issued share capital of our Company. Mr. Song, Future Exploration, Funplus and Vanker are therefore regarded as our Controlling Shareholders.

Immediately upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued under the 2020 Global Employee Incentive Plan), our Controlling Shareholders will control approximately [REDACTED]% of the issued share capital of our Company and will remain as our Controlling Shareholders.

INDEPENDENCE OF OUR BUSINESS

We believe that we are capable of carrying out our business independently of our Controlling Shareholders and his close associates after the [REDACTED] for the reasons set out below.

Management Independence

Upon the [REDACTED], our Board will consist of three executive Directors, one non-executive Director and three independent non-executive Directors, and our senior management team comprises three members.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The executive Directors and the senior management team are responsible for the day-to-day management of our operations. Notwithstanding the roles of our Controlling Shareholders, our Directors are of the view that our Company is able to function independently from our Controlling Shareholders for the following reasons:

- (i) the non-executive Director and all three independent non-executive Directors are independent of our Controlling Shareholders and decisions of the Board require the approval of a majority vote from the Board;
- (ii) we have appointed three independent non-executive Directors, comprising more than one-third of the total members of our Board, who have sufficient knowledge, experience and competence to provide a balance of the potentially interested Directors with a view to promote the interests of our Company and the Shareholders as a whole;
- (iii) our Company has established internal control mechanisms to identify connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions;
- (iv) in the event that there is potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director is obliged to declare and fully disclose such potential conflict of interests and shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum; and
- (v) each of our Directors is aware of his fiduciary duties and responsibilities under the Listing Rules as a director, which require that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his personal interests.

Based on the above, our Directors believe that our Board and senior management as a whole are able to play a managerial role in our Company independently from our Controlling Shareholders and his close associates after the [REDACTED].

Operational Independence

Our Group is not operationally dependent on our Controlling Shareholders. Our Company (through our subsidiaries and Consolidated Affiliated Entities) holds all relevant licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Pursuant to the Contractual Arrangements, our Directors are authorized to exercise all of the rights of the Registered Shareholders. Our Group is entitled to enjoy all the economic benefits of our Consolidated Affiliated Entities and to exercise management control over its operations. Pursuant to the Exclusive Call Option Agreement, Zhuhai Huanquhui, the indirect wholly-owned subsidiary of our Company, has been granted an irrevocable and exclusive option to purchase all or part of the equity interest or assets of Guangzhou Quwan at nominal consideration or the lowest price permitted by applicable PRC laws and regulations. In addition, the Exclusive Technical Service Agreement provides that Zhuhai Huanquhui has the exclusive proprietary rights and interests in any and all intellectual property rights created or developed by our Consolidated Affiliated Entities during the performance of the Exclusive Technical Service Agreement.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

Our Group has its own independent financial, internal control and accounting systems. We make financial decisions and determine our use of funds according to our own business needs. We have opened accounts with banks independently and do not share any bank account with our Controlling Shareholders. We have made tax filings and paid tax independently of our Controlling Shareholders pursuant to applicable laws and regulations. We have established an independent finance department as well as implemented sound and independent audit, accounting and financial management systems. We have adequate internal resources to support our daily operation. We do not expect to rely on our Controlling Shareholders or any of his close associates for financing after the [REDACTED] as we expect that our working capital will be funded by the [REDACTED] Investors’ investments as well as the [REDACTED] from the [REDACTED].

As of the Latest Practicable Date, there was no outstanding loan extended by our Controlling Shareholders or their close associates to us and no guarantee has been provided for our benefit by our Controlling Shareholders or any of their close associates.

Based on the above, our Directors consider that there is no financial dependence on our Controlling Shareholders or any of his close associates.

COMPETITION

Save and except for the interests of our Controlling Shareholders in our Company, its subsidiaries and the Consolidated Affiliated Entities, our Controlling Shareholders, his close associates and our Directors do not have any interest in any business, other than our Group, which competes or is likely to compete, either directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE

Our Company will comply with the provisions of the Corporate Governance Code which sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders, except for code provision A.2.1 of the Corporate Governance Code, details of which are set out in “Directors and Senior Management – Corporate Governance – Corporate Governance Code” in this Document.

Our Directors recognize the importance of good corporate governance to protect the interests of our Shareholders. We have adopted the following corporate governance measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (i) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if our Group enters into connected transactions with our Controlling Shareholders or his close associates, our Company will comply with the applicable requirements under the Listing Rules;
- (ii) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his close associates has any material interest, our Controlling Shareholders and his close associates (as applicable) will not vote on the resolutions and shall not be counted in the quorum for the voting;
- (iii) our Board consists of a balanced composition of executive, non-executive and independent non-executive Directors, with not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors individually and collectively possess the requisite knowledge and experience to perform their duties. They will review whether there is any conflict of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (iv) where the advice from an independent professional, such as a financial or legal adviser, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such an independent professional will be made at our Company’s expenses; and
- (v) we have appointed Rainbow Capital (HK) Limited as the Compliance Adviser, who will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to Directors’ duties and corporate governance matters.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflict of interests between our Group and our Controlling Shareholders and to protect our minority Shareholders’ rights after the [REDACTED].

FINANCIAL INFORMATION

You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountant’s Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this Document, including the sections headed “Risk Factors” and “Business.”

For the purpose of this section, unless the context otherwise requires, references to 2018, 2019 and 2020 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are the largest voice-based mobile social platform and the largest gamer-centric mobile social platform in China in terms of average MAUs in the first half of 2021, according to Frost & Sullivan. With our diversified product features and functions, we encourage social interactions among our users, and through voice-based and other real-time forms of interactions and entertainment offerings, facilitate the creation of genuine and lasting social relationships.

We primarily monetize our services through users’ consumption of virtual items sold on our *TT Chat* app as they interact with other users and hosts, as well as membership subscriptions. Purchase and consumption scenarios are seamlessly integrated into the social networking and entertainment features and functions on our platform, where users can purchase a diverse selection of virtual items and send them as gifts to other users and hosts.

The number of our average MPUs increased by 138.2% from 161.9 thousand in 2018 to 385.6 thousand in 2019, and further by 67.0% to 643.9 thousand in 2020, and such number increased by 23.4% from 670.1 thousand in the six months ended on June 30, 2020 to 826.8 thousand in the six months ended on June 30, 2021.

FINANCIAL INFORMATION

Unlike other major online streaming and entertainment platforms in China, we do not rely on a limited number of popular hosts to drive consumption of virtual items on our platform. Rather, we strive to foster a vibrant user community where users are encouraged to forge genuine relationships with each other that naturally and organically motivate virtual gifting to each other.

We are still in the early stages of monetization but have already achieved rapid growth with our revenues increasing from RMB432.9 million in 2018 to RMB836.3 million in 2019 and further to RMB1,493.4 million in 2020, and from RMB602.0 million in the six months ended June 30, 2020 to RMB1,173.5 million in the same period of 2021.

BASIS OF PRESENTATION AND PREPARATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standard (“**IFRS**”) issued by International Accounting Standards Board. The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 to the Accountant’s Report included in Appendix I to this Document.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

General Factors

Our business and operating results are affected by general factors affecting China’s mobile social networking and entertainment industries, including:

- China’s overall economic growth;
- User base and penetration rate of mobile internet and mobile games in China;
- User preferences and overall trend in China’s mobile social networking and entertainment industries;
- Growth and competitive landscape of China’s mobile social networking and entertainment industries;
- Governmental regulations, policies and initiatives affecting China’s mobile social networking, entertainment and internet industries; and
- Seasonality affecting the rising generations’ leisure time, including school vacations for students.

Unfavorable changes in any of the above industry conditions could negatively affect demand for our services and materially and adversely affect our results of operations.

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Specific Factors Affecting Our Results of Operations

Our results of operations, financial condition, and the period-to-period comparability of our financial results have been, and are expected to continue to be, more directly affected by company-specific factors, including the following major factors:

Our Ability to Expand User Base and Enhance User Engagement

Our ability to attract and grow our user base and to enhance user engagement is critical to our growth and profitability in the long run. We believe that a rapid increase in the size of our user base, coupled with a more vibrant community of highly engaged users, will lead to revenue growth as their commercial value is realized over time. We have experienced rapid user growth since our inception. Our average MAUs increased by 142.5% from 2.2 million in 2018 to 5.4 million in 2019 and further by 126.7% to 12.3 million in 2020, and by 62.0% from 10.0 million in the first half of 2020 to 16.2 million in the first half of 2021, primarily as a result of our continuous investment in user experience, game buddy matching technologies, as well as other innovative social entertainment offerings.

Our ability to attract and grow our user base and to enhance user engagement depends on, among other things, our ability to improve our user matching capabilities to accurately and efficiently match users with each other in selected games and voice chat rooms, facilitate genuine and long-term interpersonal connections among our users, provide users with diverse and attractive social and entertainment offerings, and attract more users through more effective marketing campaigns and increased brand recognition.

Our Ability to Effectively Enhance Monetization

Our results of operations mainly depend on our ability to monetize our user base by converting non-paying users into paying users and increasing their willingness to purchase virtual items.

Our revenues are predominantly generated by the consumption of our value-added services and audio entertainment services. In 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021, our value-added services and audio entertainment services collectively accounted for 58.6%, 85.7%, 95.1%, 95.2% and 97.9% of our total revenues, respectively, with the remainder contributed by online game revenues and others (which we strategically scaled down after 2018).

The consumption of these services is primarily driven by the number of paying users. The number of our average MPUs increased by 138.2% from 161.9 thousand in 2018 to 385.6 thousand in 2019, and further by 67.0% to 643.9 thousand in 2020, and such number increased by 23.4% from 670.1 thousand in the six months ended on June 30, 2020 to 826.8 thousand in the six months ended on June 30, 2021. These increases were primarily driven by the expansion of our user base, more interactions among our users and their increased willingness to deepen

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their relationships through virtual gifting, all of which was driven by the superior user experience we continued to offer, as well as the increasingly diversified social entertainment scenarios offered on our platform.

Our ability to increase the number of paying users and drive their engagement on our platform depends on, among other things, our ability to actively make our community more vibrant and interactive, our ability to incentivize user spending by introducing more attractive value-added services, such as membership services on our platform and our ability to enhance interactions among our users in diversified social entertainment scenarios.

Our Ability to Manage Our Costs and Expenses

Our ability to manage and control our costs and expenses is critical to the performance of our business. Our cost of revenues consists primarily of revenue sharing fees, salary and welfare benefits, and other costs related to the operation of the platform. As our platform naturally promotes users’ interactions without relying upon a limited number of key hosts, we do not incur significant content acquisition cost, such as costs for acquiring professionally produced copyrighted content.

Revenue sharing fees represent our payments to recipients of virtual gifts for their services that contribute to more active interactions in relation to our value-added services and audio entertainment services, in accordance with our revenue-sharing arrangement with them. For 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our revenue sharing fees were RMB115.8 million, RMB277.4 million, RMB432.6 million, RMB165.0 million and RMB396.5 million, respectively, representing 93.1%, 89.9%, 82.8%, 83.6% and 82.2% of our cost of revenues, respectively. As we continue to enhance our value-added services and audio entertainment services launched in the second half of 2020, we expect our revenue sharing fees to continue to increase in the near future.

Our operating expenses consist of research and development expenses, selling and marketing expenses, and administrative expenses. Our selling and marketing expenses, which comprise a majority of our operating expenses, consist primarily of promotion and advertising expenses and employee benefit expenses. For 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our selling and marketing expenses were RMB164.3 million, RMB269.1 million, RMB600.4 million, RMB240.6 million and RMB531.5 million, respectively, representing 37.9%, 32.2%, 40.2%, 40.0% and 45.3% of our revenues during such periods, respectively. While we expect to further step up our sales and marketing efforts to rapidly grow our user base to drive long-term sustainable growth, we strive to continually improve the effectiveness and efficiency of our sales and marketing activities by focusing on cost-effective and diversified user acquisition channels and utilizing innovative digital marketing tools.

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Our Ability to Effectively Invest in Technology

Our technological capabilities and infrastructure, in particular our matching and recommendation algorithm and audio technologies, are critical to the attractiveness of our platform and our long-term success. We are devoted to technological innovation to keep pace with the growth of our business and bring forward new technologies to enhance our user experience and operating efficiency. Our technology infrastructure that supports the operation of our mobile app is also critical to the scalability and stability of our platform. We will continue to upgrade and expand our technology infrastructure to better serve our users and support our business growth.

Research and development expenses comprise a significant part of our cost and expenses. For 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, our research and development expenses were RMB44.1 million, RMB88.2 million, RMB143.4 million, RMB60.4 million and RMB125.7 million, respectively, representing 10.2%, 10.5%, 9.6%, 10.0% and 10.7% of our revenues during such periods, respectively. Our research and development expenses are primarily related to compensation to those employees engaged in R&D activities, design and development expenses, bandwidth costs and other R&D related expenses. The increase of our research and development expenses is primarily attributable to the increase of headcounts and compensations of our research and development staff.

KEY OPERATING METRICS

We regularly review a number of key operating metrics to evaluate our business and measure our performance. The table below sets forth key operating metrics relating to our *TT Chat* app during each period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
Average MAUs (million)	2.2	5.4	12.3	10.0	16.2
Average MPUs (thousand)	161.9	385.6	643.9	670.1	826.8
Paying Ratio	7.3%	7.1%	5.3%	6.7%	5.1%

We monitor our average MAUs to measure the size of active user base and user engagement. Our average MAUs increased by 142.5% from 2.2 million in 2018 to 5.4 million in 2019, and further by 126.7% to 12.3 million in 2020. Our average MAUs also increased by 62.0% from 10.0 million in the six months ended on June 30, 2020 to 16.2 million in the six months ended on June 30, 2021. Such increases were primarily driven by the superior product features and user experience we offer and our branding success.

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We monitor our average MPUs and the paying ratio to measure our ability to monetize our user base. Our average MPUs increased by 138.2% from 161.9 thousand in 2018 to 385.6 thousand in 2019, and further by 67.0% to 643.9 thousand in 2020. Our average MPUs also increased by 23.4% from 670.1 thousand in the six months ended on June 30, 2020 to 826.8 thousand in the six months ended on June 30, 2021. The increases during the Track Record Period were primarily attributable to our continuous cultivation of users’ engagement and consumption habits on our platform.

We experienced fluctuations in paying ratio during the Track Record Period. Overall, such fluctuations occurred because we are still in an early stage of monetization and have been mainly focused on growing our user base, with a view to cultivating users’ spending habits and willingness to pay in the long term. Our paying ratio was stable from 2018 to 2019, being 7.3% and 7.1%, respectively. The ratio fluctuated from 7.1% in 2019 to 5.3% in 2020, and from 6.7% in the first half of 2020 to 5.1% in the first half of 2021, primarily because the growth of our MAUs significantly outpaced that of the MPUs during such periods. We managed to acquire a large number of new users during these periods through our product development and marketing efforts, including the audio entertainment services that we rolled out in 2020, while it may take some time for us to cultivate willingness to pay among such new users.

IMPACTS OF THE COVID-19 OUTBREAK

Although the COVID-19 pandemic has caused general business disruptions in China and the rest of the world, it has not had any material adverse impacts on our results of operations as we have experienced an increase in our operational performance, user base and user engagement since 2020. In an effort to contain the spread of COVID-19, China took precautionary measures, such as imposing travel restrictions, quarantining individuals infected with or suspected of having COVID-19, encouraging employees of enterprises to work remotely, extending students’ school holidays and canceling public activities, among others. As people have more disposable time and attention span at home or in other indoor scenarios, they are more likely to use our services to cultivate more connections and engage in more online entertainment activities.

However, the duration and the development of the pandemic and its impact on our business are difficult to predict. For additional details, see “Risk Factors – Risks Related to Our Business and Industry – The COVID-19 pandemic brings uncertainties to our business, financial condition and prospects.”

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CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future.

Set forth below are accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our financial statements. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in further details in Notes 2 and 4 to the Accountant’s Report included in Appendix I to this document.

Revenue recognition

We are in the business of (i) operating an interactive online platform which primarily consists of (a) value added services and (b) audio entertainment, and (ii) offering virtual items in online games and other related revenue. We recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to receive in exchange for those goods or services using the five steps defined under IFRS 15.

(i) Interactive Online Platform

We are principally engaged in operating an interactive online platform which enables hosts and users or users to users to interact with each other real time through various experiences. These experiences primarily consist of: (a) involving users under respective guilds to facilitate Value Added Services where the content to be delivered through these experiences is either controlled by us or the users (“Value Added Services”) and (b) engaging hosts to provide Audio entertainment (“Audio Entertainment”). Through the provision of the interactive online platform enabling participants to interact with each other, we monetize such experiences through the sales of virtual items on the platform as participants would purchase and present these virtual items to each other to show their appreciations. We have a recharge system for users to purchase our virtual currency then purchase virtual items for use. Users can recharge via bank transfer and various online third-party payment platforms. Virtual currency is non-refundable and without expiry.

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The virtual currency is often consumed soon after it is purchased based on history of turnover of the virtual currency. Furthermore, upon gifting, the virtual gifts received convert into virtual tokens which can either be converted back into virtual currency or cash at the discretion of the users and are recorded as accounts payable. Unconsumed virtual currency is recorded as contract liability.

(i.a) Value Added Services

The Company involves users to provide Value Added Services through the following channels:

(a.1) Content controlled by us

For certain chatrooms where the content is controlled by us, we involve an approved guild by us (“Guild”) where each Guild would be operated by a representative (“Representative”) and users enrolled in the Guild to provide Value Added Services. Both the user and Representative of the Guild must be contracted by us in order to provide Value Added Services to other users on the platform. We share a portion of the proceeds of virtual items (“revenue sharing fee”) with the recipients and their respective Guilds in accordance with agreements. We view users to be our customers.

We evaluate and determine that we are the principal when delivering Value Added Services and report the corresponding revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues. However, given the nature of these experiences, where users present virtual items to other users, the revenue sharing fee paid to the recipients would be recorded as reduction of revenues.

Where we are the principal, we control the content to be delivered within the Value Added Services as well as the virtual items before they are transferred to users. The content controlled by us may encompass graphics being used, sound and visual effects being displayed, background music being played, topics being discussed, games being played or natures of the content (e.g. games, music, anime, comic, novel, emotional counseling, storytelling, online dating, online karaoke and talk shows). Its control is evidenced by our oversight over the content to be distributed throughout these Value Added Services. Each time we involve a user to facilitate any Value Added Services on the platform, the content to be delivered is required to be pre-approved by us. Furthermore, during the delivery of the content, we would exercise on-going monitoring and if there is any deviation from the pre-approved content during the delivery, we would penalize the Representatives and users from temporary suspension to permanently removal from the platform. In addition, we have the sole ability to monetize the virtual items before they are transferred to users, and is further supported by us being primarily responsible to users and having a level of discretion in establishing pricing. We design, create and

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offer various virtual items for sale to users with pre-determined stand-alone selling prices. Virtual items are categorized as consumable and time-based items. Consumable items are consumed upon purchase while time-based items could be used for a fixed period of time such as a virtual special symbol that can be purchased and displayed on the users' profile over a short fixed period of time; Users can purchase either consumable or time-based items and present these virtual items to hosts to show support for their favorite hosts or purchase time-based virtual items that enhance the users' personal profile. Time based virtual items are typically consumed within one to two months for the periods presented.

(a.2) Content controlled by the users

For chatrooms where content is not controlled by us, we can exercise the same level of control over the virtual items as compared to when we are a principal. However, the control over the content to be distributed in certain experiences are exercised by the users. We do not have any process in place to review the content to be delivered and we would only exercise on-going monitoring to ensure the content being distributed are not in any violation of the rules and regulations established by us and in the PRC. Therefore, We do not exercise any control over the topics being discussed, games being played or nature of the content in these experiences. In these instances, we evaluate and determine that we are the agent and report the corresponding revenues on a net basis. Accordingly, we record the net amounts billed to users and revenue sharing fees paid to other recipients as revenue as we are considered as an agent within these experiences.

(i.b) Audio Entertainment

In audio-streaming chatrooms, we engage hosts to provide Audio Entertainment and each host must be contracted by an approved Guild where each Guild would be operated by a Representative. Both the host and Representative of the Guild must be contracted by us in order to provide Audio Entertainment to other users on the platform. We share a portion of the revenue sharing fee with the recipients and their respective Guilds for those recipients who are hosts in accordance with agreements. We view users to be our customers.

We evaluate and determine that we are the principal when delivering Audio Entertainment and report the corresponding revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues and revenue sharing fee paid to hosts and their respective Guilds are recorded as cost of revenues. However, when the virtual items are purchased by the hosts and presented them back to the users to show hosts' appreciation for supporting them, the portion retained by the Company in these transactions are recorded as reduction of cost of revenues. Given the nature of these experiences, where users may present virtual items to other users, the related revenue sharing fee paid to the recipients would be recorded as reduction of revenues. Where we are the principal, we control the content to be delivered within the Audio Entertainment

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as well as the virtual items before they are transferred to users. Its control is evidenced by our oversight over the content to be distributed throughout these Audio Entertainment. Each time the Representative would like to host any Audio Entertainment on the platform, the content to be delivered is required to be pre-approved by us. Furthermore, during the delivery of the content, we would exercise on-going monitoring and if there is any deviation from the pre-approved content during the delivery, we would penalize the representatives and hosts from temporary suspension to permanently removal from the platform. In addition, we have the sole ability to monetize the virtual items before they are transferred to users, and is further supported by us being primarily responsible to users and having a level of discretion in establishing pricing. We design, create and offer various virtual items for sale to users with pre-determined stand-alone selling prices. Virtual items are categorized as consumable and time-based items. Consumable items are consumed upon purchase while time-based items could be used for a fixed period of time such as a virtual special symbol that can be purchased and displayed on the users’ profile over a short fixed period of time; Users can purchase either consumable or time-based items and present these virtual items to hosts to show support for their favorite hosts or purchase time-based virtual items that enhance the users’ personal profile. Time-based virtual items are typically consumed within one to two months for the periods presented.

(ii) Online Games Revenues

We generate revenues from offering virtual items in online games developed by us or third parties to game users. The purchased virtual items, including consumable and perpetual items, can be utilized in the online games to enhance their game-playing experience. Consumable items represent virtual items that can be consumed by a specific game user within a specified period of time. Perpetual items represent virtual items that are accessible to the game users’ account over the life of the online games. We have a recharge system for game user to purchase game tokens for use. Game user can recharge via various online third-party payment platforms. Game tokens is nonrefundable and without expiry. As the game token is often consumed soon after it is purchased based on history of turnover of the game token, we consider it does not expect to be entitled to a breakage amount for the game token.

The majority of online games revenues were derived from the third parties’ developed games for the years presented.

(ii.a) Third-parties’ developed games

Pursuant to contracts signed between us and the respective game developers, game developers own the games’ copyrights and other intellectual property, and take primary responsibilities of game development and game operation, including designing, developing and updating of the games related to game content, pricing of virtual items, providing ongoing updates of new content and bug fixing. Our responsibilities under the agreements with the game developers to offer certain standard promotions that include providing access to the platform, announcing the new games to users on the platform, and occasional advertising on our platforms. Therefore, revenues derived from third party

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developed games are recorded on a net basis, net of the amount paid to game developers. Given that third party developed games are managed and administered by the third party game developers, we do not have access to the data on the consumption details such as when the game token is spent on the virtual items or the types of virtual items (i.e. consumable or perpetual items) purchased by each individual game player. However, we maintain historical data on timing of the conversion of its virtual currency into game specific tokens and the amount of purchases of game tokens. We believe that our responsibility to the game developers correspond to the game developers' services to the game users. We have adopted a policy to recognize revenues relating to game tokens for third party developed games over the estimated user relationship period with us on a game-by-game basis, which is approximately one to two months for the periods presented. Future usage patterns may differ from historical usage patterns and therefore the estimated user relationship period with us may change in the future.

(ii.b) Self-developed games

With respect to the game operation contracts entered into between us and distribution platforms for co-publishing or between us and game users for self-publishing, we own the games' copyrights and other intellectual property, and takes primary responsibilities of game development and game operation, including designing, development, and updating of the games including the game content, as well as the pricing of virtual items, providing on-going updates of new content and bug fixing, determining the distribution platforms and payment channels, and providing customer services. Therefore, we consider itself to be the principal in these contracts and views game users to be its customers. Revenues derived from self-developed games are recorded on a gross basis, and fees to be shared with distribution platforms and payment handling costs charged by payment platforms are recorded as cost of revenues. Game users play games free of charge and are charged for purchases of virtual items mainly including consumable and perpetual items, which can be utilized to enhance users' game-playing experience. Consumable items represent virtual items that can be consumed by a specific game user within a specified period of time. Perpetual items represent virtual items that are accessible to the game users' account over the life of the online games. We do not maintain information on consumption details of virtual items, and only have limited information related to the frequency of log-ons. Given that a substantial of the virtual items purchased by the game users in self-developed games are perpetual items, we determined that it would be most appropriate to recognize over the estimated user relationship period with us, which is approximately one to two months for the periods presented. The determination of user relationship period is based on our best estimate that takes into account all known and relevant information at the time of assessment. We assess the estimated game user relationships on a quarterly basis. Any adjustments arising from changes in the game user relationship as a result of new information will be accounted as a change in accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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Measurement of share-based compensation expenses

We granted options to our employees. The fair value of the options is determined by the binomial option pricing model at the grant date and is expected to be expensed over the respective vesting periods. Significant estimates and assumptions, including forfeiture rate, underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by our directors and third-party valuer.

Estimation of the fair value of financial assets and financial liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. We use our judgment to select a variety of methods and make assumptions including credit risk, volatility and liquidity risks associated with the instruments at the end of each reporting period, which are subject to uncertainty and might materially differ from the actual results. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets.

The convertible redeemable preferred shares issued by us are not traded in an active market, and the respective fair value is determined by using valuation techniques. We have applied the discounted cash flow method to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions such as the discount rate, risk-free interest rate, lack of marketability discount and volatility, as well as the probability weight among the timing of the liquidation, redemption or [REDACTED] event scenarios based on our best estimates.

Credit loss allowances for trade receivables, other receivables, amounts due from related parties and other financial assets

The expected credit loss of trade receivables, other receivables, amount due from related parties and other financial assets are based on assumptions about risk of default and expected loss rates. We use judgment in making these assumptions and selecting the inputs to calculate the loss allowances, based on our past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b) to the Accountant’s Report included in Appendix I to this document.

Estimation of the useful life of intangible assets

We have acquired e-Sports licenses and contracts, technology and brand that are expected to enhance its online game and online interaction platform business. We estimate the useful life of the technology and brand were to be 7 and 5 years respectively based on the expected technical obsolescence of such assets. However, the actual useful life may be shorter or longer, depending on technological innovations and competitor actions.

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Business combinations

Business combinations are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. We determine discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected lives of assets, the forecasted life cycles and forecasted cash flows over that period. Although we believe that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Estimation of goodwill impairment

We test whether goodwill has suffered any impairment on an annual basis. The recoverable amount of CGUs was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by our directors covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 17 to the Accountant’s Report included in Appendix I to this document. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 17 to the Accountant’s Report included in Appendix I to this document.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The table below sets forth our consolidated statements of profit or loss for the years/periods indicated derived from our consolidated statements of profit or loss set out in the Accountant’s Report included in Appendix I to this Document:

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
				<i>(unaudited)</i>	
				<i>(RMB in thousands)</i>	
Revenues	432,866	836,327	1,493,420	602,010	1,173,466
Cost of revenues ⁽¹⁾	(124,466)	(308,430)	(522,201)	(197,394)	(482,478)

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	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(unaudited)</i>				
	<i>(RMB in thousands)</i>				
Gross profit	308,400	527,897	971,219	404,616	690,988
Selling and marketing expenses ⁽¹⁾	(164,257)	(269,144)	(600,361)	(240,645)	(531,545)
Administrative expenses ⁽¹⁾	(84,504)	(46,437)	(215,845)	(58,577)	(307,905)
Research and development expenses ⁽¹⁾	(44,074)	(88,156)	(143,403)	(60,365)	(125,721)
Net impairment losses on financial assets	(2,040)	(3,944)	(6,587)	(6,258)	(4,027)
Other (losses)/gains, net	(900)	9,087	13,099	(398)	14,497
	<u>12,625</u>	<u>129,303</u>	<u>18,122</u>	<u>38,373</u>	<u>(263,713)</u>
Operating profit/(loss)					
Finance income	1,068	2,114	8,520	2,665	3,580
Finance costs	(777)	(883)	(4,217)	(1,421)	(2,446)
	<u>291</u>	<u>1,231</u>	<u>4,303</u>	<u>1,244</u>	<u>1,134</u>
Finance income, net					
Share of net (loss)/profit of associates accounted for using equity method	(482)	(942)	(831)	27	(1,219)
Fair value changes on convertible redeemable preferred shares	–	–	(53,075)	–	(394,756)
Fair value changes on convertible preferred shares	–	–	(109,649)	–	(324,577)
	<u>12,434</u>	<u>129,592</u>	<u>(141,130)</u>	<u>39,644</u>	<u>(983,131)</u>
Profit/(Loss) before income tax					
Income tax credit/(expenses)	947	1,288	(12,879)	(10,184)	(5,517)
	<u>13,381</u>	<u>130,880</u>	<u>(154,009)</u>	<u>29,460</u>	<u>(988,648)</u>
Profit/(Loss) for the year/period					
Attributable to:					
Owners of the Company	13,381	130,880	(152,247)	29,639	(981,464)
Non-controlling interests	–	–	(1,762)	(179)	(7,184)
Non-IFRS Measures⁽²⁾:					
Adjusted EBITDA (non-IFRS measure)	65,402	147,741	190,400	94,212	29,223
Adjusted Net Income (non-IFRS measure)	52,720	141,704	151,302	71,398	4,195

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Note:

- (1) Total share-based compensation expenses recognized for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021 are allocated as follows:

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	(unaudited)				
	(RMB in thousands)				
Share-based compensation expenses					
Cost of revenues	190	102	45	42	849
Selling and marketing expenses	523	2,990	172	86	3,850
Administrative expenses	36,607	7,082	107,533	35,960	111,242
Research and development expenses	2,019	650	472	237	19,023
	39,339	10,824	108,222	36,325	134,964
Total	39,339	10,824	108,222	36,325	134,964

Revenues

Every user can open his or her unique voice chat room for free after completing our registration process on *TT Chat* app, and display the chat room’s status in different channels. We derive our revenues primarily through:

- **Value-added services**, where our users consume virtual gifts *in multi-user interaction scenarios* to differentiate their virtual characters and develop long-lasting relationships with each other as well as membership subscriptions; and
- **Audio entertainment services**, where our users send virtual gifts to hosts *in our diverse audio entertainment scenarios hosted by these hosts*. We did not generate any revenues from audio entertainment services in 2018 and 2019 and achieved rapid growth in revenues since its launch on *TT Chat* app in the second half of 2020.

In addition, we also generate a small portion of our revenues from games and other services, which included esports team operations, game distribution and overseas operations. As these businesses are independent from *TT Chat* app’s operations, we strategically streamlined game distribution operation and reduced our investments in their growth to focus more on the growth of our *TT Chat* app and the value-added services and audio entertainment services we offer within such mobile app.

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The table below sets forth a breakdown of our revenue, in absolute amounts and as percentages of total revenue, for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	<i>(unaudited)</i>		RMB	%
	<i>(in thousands, except for percentages)</i>									
Value-added services	253,865	58.6	716,354	85.7	1,357,132	90.9	573,132	95.2	963,239	82.1
Audio entertainment services	–	–	–	–	63,621	4.3	–	–	185,918	15.8
Games and others	179,001	41.4	119,973	14.3	72,667	4.8	28,878	4.8	24,309	2.1
Total	432,866	100.0	836,327	100.0	1,493,420	100.0	602,010	100.0	1,173,466	100.0

Cost of Revenues

Our cost of revenues consist primarily of (i) revenue sharing fees; (ii) employee benefits expenses; (iii) bandwidth expenses and server custody costs; and (iv) payment processing cost. Revenue sharing fees account for the vast majority of our cost of revenues, representing 93.1%, 89.9%, 82.8%, 83.6% and 82.2% of our cost of revenues in 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021.

The table below sets forth a breakdown of our cost of revenues by nature in absolute amounts for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	<i>(unaudited)</i>		RMB	%
	<i>(in thousands, except for percentages)</i>									
Revenue sharing fees	115,844	93.1	277,364	89.9	432,586	82.8	165,044	83.6	396,527	82.2
Employee benefits expenses	190	0.2	7,670	2.5	21,485	4.1	3,417	1.7	28,439	5.9
Amortization of intangible assets	–	–	314	0.1	19,504	3.8	5,479	2.8	17,572	3.6
Bandwidth expenses and server custody costs	1,320	1.1	8,865	2.9	20,499	3.9	8,667	4.4	18,676	3.9
Payment processing cost	4,923	4.0	11,621	3.8	20,067	3.9	8,630	4.4	14,473	3.0
Others	2,189	1.8	2,596	0.8	8,060	1.5	6,157	3.1	6,791	1.4
Total	124,466	100.0	308,430	100.0	522,201	100.0	197,394	100.0	482,478	100.0

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Revenue sharing fees primarily represent our payments to recipients of virtual gifts and guilds in relation to our value-added services and audio entertainment services, in accordance with our revenue-sharing arrangements with them. See “Business – Our Platform – Hosts on Our Platform” and “Business – Our Monetization.” The revenue sharing fees are calculated based on a percentage of revenues generated from consumption of virtual items and certain performance based incentives. For 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021, our revenue sharing fees attributable to value-added services were RMB101.3 million, RMB237.2 million, RMB354.9 million, RMB146.7 million and RMB268.3 million, for 2018, 2019, 2020 and the six months ended June 30, 2020 and 2021, accounting for 87.4%, 85.5%, 82.0%, 88.9% and 67.7% of our total revenue sharing fees, respectively. As we launched our audio entertainment services in July 2020, we recorded revenue sharing fees attributable to audio entertainment services of RMB38.5 million and RMB121.4 million, accounting for 8.9% and 30.6% of our total revenue sharing fees, in 2020 and the six months ended June 30, 2021, respectively. To a much lesser extent, our revenue sharing fees were also attributable to games and others. Overall, we expect our revenue sharing fees to increase generally in parallel with the expansion of our value-added services and audio entertainment services in the near term.

Gross Profit and Gross Profit Margin

Our gross profit increased by 71.2% from RMB308.4 million in 2018 to RMB527.9 million in 2019, and further increased by 84.0% to RMB971.2 million in 2020. Our gross profit also increased by 70.8% from RMB404.6 million in the six months ended June 30, 2020 to RMB691.0 million in the six months ended June 30, 2021. Our gross profit margins were 71.2%, 63.1%, 65.0%, 67.2% and 58.9% in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively. Our gross profit margin decreased from 71.2% in 2018 to 63.1% in 2019 mainly because we increased the revenues shared with guilds as part of our efforts to drive community interactions and an increase in the revenues shared with game developers. Our gross profit margin then increased to 65.0% in 2020 mainly because we lowered the revenues shared with guilds and also due to the higher proportion of revenue generated from decentralized consumption scenarios where users sent virtual gifts to other users. Our gross profit margin decreased from 67.2% in the six months ended June 30, 2020 to 58.9% in the same period in 2021, primarily because that we launched audio entertainment services in the second half of 2020, which have a higher proportion of revenues shared to guilds than that of value-added services.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of (i) promotion and advertising expenses and (ii) employee benefit expenses. We plan to continue to invest in sales and marketing, especially to acquire new users and promote our brand awareness and brand images through diversified channels, which we believe will benefit our long-term growth and maximize our monetization potentials. As a result, we expect the absolute amounts of selling and marketing expenses to rapidly increase in the near future. Such selling and marketing expenses may fluctuate as a percentage of our revenues from period to period depending on the timing and extent of these expenses and due to seasonality.

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The following table sets forth a breakdown of our selling and marketing expenses by nature in absolute amounts for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%	<i>(unaudited)</i>		<i>RMB</i>	%
							<i>RMB</i>	%	<i>RMB</i>	%
							<i>(in thousands)</i>			
Employee benefit expenses	36,465	22.2	41,848	15.5	47,100	7.8	22,511	9.4	46,193	8.7
Promotion and advertising expenses	125,242	76.2	207,487	77.1	522,017	87.0	205,592	85.4	462,554	87.0
Others ⁽¹⁾	2,550	1.6	19,809	7.4	31,244	5.2	12,542	5.2	22,798	4.3
Total	164,257	100.0	269,144	100.0	600,361	100.0	240,645	100.0	531,545	100.0

Note:

- (1) Others primarily consist of (i) outsourcing and other labor costs, (ii) depreciation of property and equipment, (iii) amortization of intangible assets, (iv) bandwidth expenses and server custody costs, and (v) professional fees.

Our selling and marketing expenses accounted for 37.9%, 32.2%, 40.2%, 40.0% and 45.3% of our revenues in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively.

Administrative Expenses

Our administrative expenses consist primarily of (i) employee benefit expenses; (ii) professional fees and (iii) depreciation and amortization. We expect to incur additional expenses as a result of operating as a public company and to meet the increased compliance requirements associated with our expansion.

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The table below sets forth a breakdown of our administrative expenses by nature in absolute amounts for the years/periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	<i>(unaudited)</i>		RMB	%
	<i>(in thousands)</i>									
Employee benefit expenses	54,184	64.1	27,251	58.7	178,698	82.8	48,403	82.6	273,515	88.8
Professional fees	2,135	2.5	2,619	5.6	16,027	7.4	696	1.2	20,809	6.8
Depreciation and amortization	8,397	9.9	7,707	16.6	11,163	5.2	4,771	8.1	9,715	3.2
Others ⁽¹⁾	19,788	23.4	8,860	19.1	9,957	4.6	4,707	8.0	3,866	1.3
Total	84,504	100.0	46,437	100.0	215,845	100.0	58,577	100.0	307,905	100.0

Note:

- (1) Others primarily consist of (i) bandwidth expenses and server custody costs and (ii) auditor’s remuneration.

Our administrative expenses accounted for 19.5%, 5.6%, 14.5%, 9.7% and 26.2% of our revenues in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively.

Research and Development Expenses

Our research and development expenses consist primarily of (i) employee benefit expenses; and (ii) bandwidth expenses and server custody costs. We believe that continued investment in research and development is key to our future growth. We expect to continue to invest substantially in our research and development efforts to improve user experience and support our business growth. As a result, we expect our research and development expenses to continue to increase in absolute amounts in the foreseeable future.

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The following table sets forth the breakdown of our research and development expenses by nature in absolute amounts for the years/periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2018		2019		2020		2020		2021	
	RMB	%	RMB	%	RMB	%	<i>(unaudited)</i>		RMB	%
	<i>(in thousands)</i>									
Employee benefit expenses	29,705	67.4	52,041	59.0	77,676	54.2	33,245	55.1	86,594	68.9
Bandwidth expenses and server custody costs	11,007	25.0	20,239	23.0	35,981	25.1	16,721	27.7	25,523	20.3
Others ⁽¹⁾	3,362	7.6	15,876	18.0	29,746	20.7	10,399	17.2	13,604	10.8
Total	44,074	100.0	88,156	100.0	143,403	100.0	60,365	100.0	125,721	100.0

Note:

- (1) Others primarily consist of (i) outsourcing and other labor costs, (ii) depreciation of property and equipment, (iii) amortization of intangible assets, and (iv) professional fees.

Our research and development expenses accounted for 10.2%, 10.5%, 9.6%, 10.0% and 10.7% of our revenues in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, respectively.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets consist primarily of loss allowance provided for trade receivables, other receivables and amounts due from related parties.

In 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we had net impairment losses on financial assets of RMB2.0 million, RMB3.9 million, RMB6.6 million, RMB6.3 million and RMB4.0 million, respectively.

Other (Losses)/Gains, Net

Our other (losses)/gains, net consists primarily of (i) net fair value (losses)/gains on financial assets at fair value through profit or loss, and (ii) government grants and value added tax subsidies. In 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded other losses, net of RMB0.9 million, other gains, net of RMB9.1 million, RMB13.1 million, other losses, net of RMB0.4 million and other gains, net of RMB14.5 million, respectively.

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Operating Profit/(Loss)

As a result of the foregoing, in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded operating profit of RMB12.6 million, RMB129.3 million, RMB18.1 million, RMB38.4 million and operating loss of RMB263.7 million, respectively.

Finance Income and Finance Costs

Our finance income consists primarily of (i) interest income from loan receivables and loan to related parties, which primarily relate to the loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors, which has been repaid in full as of June 30, 2021 and (ii) interest income from bank deposits. In 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we had finance income of RMB1.1 million, RMB2.1 million, RMB8.5 million, RMB2.7 million and RMB3.6 million, respectively.

Our finance costs consist primarily of (i) interest expense from borrowings, which primarily relate to our bank loans; and (ii) interest expense from lease liabilities. In 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we had finance costs of RMB0.8 million, RMB0.9 million, RMB4.2 million, RMB1.4 million and RMB2.4 million, respectively.

As a result of the foregoing, in 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded finance income, net of RMB0.3 million, RMB1.2 million, RMB4.3 million, RMB1.2 million and RMB1.1 million, respectively.

Share of Net (Loss)/Profit of Associates Accounted for Using Equity Method

In 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, we recorded share of net loss of associates accounted for using equity method of RMB0.5 million, RMB0.9 million, RMB0.8 million, share of net profit of associates accounted for using equity method of RMB27 thousand and share of net loss of associates accounted for using equity method of RMB1.2 million, respectively.

Income Tax Credit/(Expenses)

Our income tax credits/(expenses) comprised primarily of (i) current income tax and (ii) deferred income tax. In 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021, we recorded income tax credit of RMB0.9 million, RMB1.3 million, income tax expenses of RMB12.9 million, RMB10.2 million and RMB5.5 million, respectively, with effective tax rates of -7.6%, -1.0%, -9.1%, 25.7% and -0.6%, respectively.

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NON-IFRS MEASURES

To supplement our consolidated financial statements presented in accordance with IFRSs, we use adjusted EBITDA and adjusted net income as additional financial measures, which are not required by, or presented in accordance with IFRSs. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. We believe that these measures provide useful information to [REDACTED] in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, presentation of adjusted EBITDA and adjusted net income may not be comparable to similarly titled measures presented by other companies. The use of these non-IFRS measures has limitations as an analytical tool, and [REDACTED] should not consider them in isolation from, or as substitute for analysis of, our results of operations or financial conditions as reported under IFRSs.

Adjusted EBITDA

We define adjusted EBITDA as profit/(loss) for the year/period by adding or lessening depreciation of property and equipment, amortization of intangible assets, depreciation of right-of-use assets, net impairment losses on financial assets, other (losses)/gains, net, share of net (loss)/profit of associates accounted for using equity method, income tax expenses/(credit), finance costs, finance income, fair value changes on convertible redeemable preferred shares, fair value changes on convertible preferred shares, share-based compensation expenses and one-off expenses related to group reorganization. The following table reconciles our adjusted EBITDA presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely profit/(loss) for the year/period.

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	For the year ended December 31,			For the six months	
	2018			ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
Reconciliation of profit/(loss) for the year/period and adjusted EBITDA					
Profit/(Loss) for the year/period	13,381	130,880	(154,009)	29,460	(988,648)
Add/(Less):					
Depreciation of property and equipment	1,728	2,984	4,178	1,765	3,048
Amortization of intangible assets	4,768	4,417	24,696	7,652	19,540
Depreciation of right-of-use assets	4,002	5,356	7,329	3,441	7,308
Net impairment losses on financial assets	2,040	3,944	6,587	6,258	4,027
Other losses/(gains), net	900	(9,087)	(13,099)	398	(14,497)
Share of net loss/(profit) of associates accounted for using equity method	482	942	831	(27)	1,219
Income tax (credit)/expenses	(947)	(1,288)	12,879	10,184	5,517
Finance costs	777	883	4,217	1,421	2,446
Finance income	(1,068)	(2,114)	(8,520)	(2,665)	(3,580)
Fair value change of convertible redeemable preferred shares	–	–	53,075	–	394,756
Fair value changes on convertible preferred shares	–	–	109,649	–	324,577
Share-based compensation expenses	39,339	10,824	108,222	36,325	134,964
One-off expenses related to group reorganization*	–	–	34,365	–	138,546
Adjusted EBITDA	65,402	147,741	190,400	94,212	29,223

Note:

* For details, see Note 24 to the Accountant’s Report set out in Appendix I to this Document

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Adjusted Net Income

We define adjusted net income as profit/(loss) for the year/period by adding back share-based compensation expenses, fair value change of convertible redeemable preferred shares, fair value change of convertible preferred shares, fair value change of convertible notes and one-off expenses related to group reorganization. The following table reconciles our adjusted net income presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, namely profit/(loss) for the year/period.

	For the year ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>(RMB in thousands)</i>				
Reconciliation of profit/(loss) for the year/period and adjusted net income					
Profit/(loss) for the year/period	13,381	130,880	(154,009)	29,460	(988,648)
Add:					
Share-based compensation expenses	39,339	10,824	108,222	36,325	134,964
Fair value change of convertible redeemable preferred shares	–	–	53,075	–	394,756
Fair value change of convertible preferred shares	–	–	109,649	–	324,577
Fair value change of convertible notes	–	–	–	5,613	–
One-off expenses related to group reorganization*	–	–	34,365	–	138,546
	<u>–</u>	<u>–</u>	<u>34,365</u>	<u>–</u>	<u>138,546</u>
Adjusted net income	<u>52,720</u>	<u>141,704</u>	<u>151,302</u>	<u>71,398</u>	<u>4,195</u>

Note:

* For details, see Note 24 to the Accountant’s Report set out in Appendix I to this Document

Our management considers that (i) share-based compensation expenses is a non-cash term, (ii) fair value change of convertible redeemable preferred share, fair value change of convertible preferred shares and fair value change of convertible notes are not considered to be indicative of our operating performance, and (iii) one-off expenses related to group reorganization are non-recurring and non-operational expenses. All such items are not directly indicative of our business operations. Therefore, to supplement our consolidated results which are prepared and presented in accordance with IFRS, we eliminate the impacts of such items in the calculation of non-IFRS measures. These measures could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year and from period to period. The non-IFRS measures should not be considered as a substitute for our results of operations or financial condition as reported under IFRS, and our presentation of these non-IFRS measures should not be viewed as an implication that our future results will be unaffected by unusual or non-recurring items. In addition, our non-IFRS measures may not be comparable to other similarly titled measures used by other companies, as they may define differently from similar terms on the non-IFRS measures.

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Our adjusted net income of RMB4.2 million in the six months ended June 30, 2021 was mainly due to (i) the increased selling and marketing expenses to continue to grow our user base and user engagement and enhance our brand recognition, (ii) an increase in administrative expenses relating to increased professional fees in connection with the [REDACTED], and (iii) an increase in research and development expenses as we continued to increase our R&D headcounts. Our adjusted EBITDA of RMB29.2 million in the six months ended June 30, 2021 was largely due to the aforementioned reasons.

TAXATION

Cayman Islands

Under the current laws of the Cayman Islands, our company is not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our company.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, our subsidiaries incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong, except for one entity that is qualified under the two-tiered profits tax rate regime, under which the first HK\$2.0 million of its assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

PRC

Generally, our PRC subsidiary, VIE and VIE’s subsidiaries are subject to the PRC Corporate Income Tax Law at the statutory income tax rate of 25%. Pursuant to the relevant tax regulations in the PRC, qualified software enterprises (“Software Enterprise”) are exempt from enterprise income tax for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first profit making year. Guangzhou Quwan is qualified as qualified software enterprise, and exempted from enterprise income tax for years ended December 31, 2018 and 2019. It is subjected to a 50% reduction in the applicable tax rates for the six months ended June 30, 2020, June 30, 2021 and the years ended December 31, 2020, 2021 and 2022.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75% effective from 2018 to 2020, according to a new tax incentives policy

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promulgated by the State Tax Bureau of the PRC in September 2018 (“Super Deduction”). Guangzhou Quwan and some of its PRC subsidiaries are qualified to enjoy the additional 75% tax deducting amount for the six months ended June 30, 2020, June 30, 2021, and years ended December 31, 2018, 2019, 2020.

Under the Enterprise Income Tax Law enacted by the NPC, dividends generated after January 1, 2008 and payable by a foreign investment enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the “beneficial owner” and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where our Company was incorporated, does not have a tax treaty with the PRC.

The Enterprise Income Tax Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the Enterprise Income Tax Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, and so forth, of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, our Group does not believe that it is likely that its operations outside of the PRC will be considered a resident enterprise for PRC tax purposes. However, due to limited guidance and implementation history of the EIT Law, there is uncertainty as to the application of the Enterprise Income Tax Law. Should our Company be treated as a resident enterprise for PRC tax purposes, our Company will be subject to PRC income tax on worldwide income at a uniform tax rate of 25%. See “Risk Factors – Risks Related to Doing Business in the PRC – We may be treated as a resident enterprise for PRC tax purposes under the PRC Enterprise Income Tax Law, and we may therefore be subject to PRC income tax on our global income.”

Singapore

Under the Singapore Income Tax Act, our subsidiaries operated in Singapore are subject to 17% corporate tax on their taxable income generated from operations in Singapore. Additionally, payments of dividends by our subsidiaries incorporated in Singapore are not subject to any Singapore withholding tax.

DISCUSSION OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2021 Compared with the Six Months Ended June 30, 2020

Revenues

Our revenues increased by 94.9% from RMB602.0 million in the six months ended June 30, 2020 to RMB1,173.5 million in the six months ended June 30, 2021, which was attributable to an increase by 68.1% in the revenues generated by our value-added services from RMB573.1 million in the six months ended June 30, 2020 to RMB963.2 million in the six months ended June 30, 2021, and to a lesser extent, the introduction of audio entertainment services in July 2020, which contributed revenues of RMB185.9 million in the six months ended June 30, 2021.

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Our overall revenue increases were primarily driven by the increase of our MAUs and the growth of MPUs, as driven by increasingly diversified social entertainment scenarios offered on our platform, enhanced marketing efforts and improved operation efficiency. We had 16.2 million MAUs in the six months ended June 30, 2021, compared to 10.0 million MAUs in the same period of 2020. We had 826.8 thousand average MPUs in the six months ended June 30, 2021, compared to 670.1 thousand average MPUs in the same period of 2020.

Cost of Revenues

Our cost of revenues increased by 144.4% from RMB197.4 million in the six months ended June 30, 2020 to RMB482.5 million in the six months ended June 30, 2021. The increase in cost of revenues was primarily due to the fast growth of our revenue, and the increase in revenue sharing fees by 140.3% from RMB165.0 million in the six months ended June 30, 2020 to RMB396.5 million in the six months ended June 30, 2021. More specifically, our revenue sharing fees attributable to value-added services increased from RMB146.7 million in the six months ended June 30, 2020 to RMB268.3 million in the same period in 2021, as a result of the rapid growth of our value-added services, and we recorded RMB121.4 million of revenue sharing fees attributable to audio entertainment service in the six months ended June 30, 2021 as opposed to nil in the same period in 2020, as we introduced our audio entertainment services in July 2020. The revenue sharing fee as a percentage of our total revenues increased from 27.4% in the six months ended June 30, 2020 to 33.8% in the same period in 2021, primarily as a result of the increased portion of revenue contributed by audio entertainment services, which have higher proportion of revenues shared to guilds than value-added services. This is because Audio entertainment services are mostly provided by hosts managed by guilds to whom we pay additional revenue sharing fees, whereas revenues from value-added services are mostly generated when users send virtual gifts to other users in multi-user voice chat rooms where no such additional revenue sharing fees are paid to hosts managed by guilds. See “Business – Our Monetization.”

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 70.8% from RMB404.6 million in the six months ended June 30, 2020 to RMB691.0 million in the six months ended June 30, 2021. Our gross profit margin decreased from 67.2% in the six months ended June 30, 2020 to 58.9% in the six months ended June 30, 2021 due to the reasons discussed above.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 120.9% from RMB240.6 million in the six months ended June 30, 2020 to RMB531.5 million in the six months ended June 30, 2021, which was primarily due to (i) an increase in promotion and advertising expenses from RMB205.6 million in the six months ended June 30, 2020 to RMB462.6 million in the six months ended June 30, 2021, mainly attributable to our increased marketing and promotion activities we undertook to promote our *TT Chat* brand and services and (ii) an increase in employee benefit expenses from RMB22.5 million in the six months ended June 30, 2020 to RMB46.2 million in the six months ended June 30, 2021, mainly attributable to the increased headcounts and compensation level to our selling and marketing personnel, including share-based expenses.

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Administrative Expenses

Our administrative expenses increased by 425.6% from RMB58.6 million in the six months ended June 30, 2020 to RMB307.9 million in the six months ended June 30, 2021, mainly attributable to (i) an increase in employee benefit expenses from RMB48.4 million for the six months ended June 30, 2020 to RMB273.5 million for the six months ended June 30, 2021 which was primarily due to the grant of share options during the six months ended June 30, 2021 and deemed compensation in the form of dividends paid to Mr. Song Ke and his affiliates who used a portion of such dividends to repay the outstanding debt in connection with our corporate reorganization, and (ii) an increase in professional fees from RMB0.7 million for the six months ended June 30, 2020 to RMB20.8 million for the six months ended June 30, 2021, primarily due to professional services expenses in connection with the [REDACTED] and related transactions.

Research and Development Expenses

Our research and development expenses increased by 108.3% from RMB60.4 million in the six months ended June 30, 2020 to RMB125.7 million in the six months ended June 30, 2021, as we continued to increase R&D headcounts and compensations of our research and development personnel, including share-based compensation.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets decreased from RMB6.3 million in the six months ended June 30, 2020 to RMB4.0 million in the six months ended June 30, 2021. The decrease was mainly attributable to reversal of loss allowance provided for amounts due from related parties, offset by increase in loss allowance provided for other receivables.

Other (Losses)/Gains, Net

We recorded other losses, net of RMB0.4 million and other gains, net of RMB14.5 million in the six months ended June 30, 2020 and 2021, respectively. The change was mainly due to (i) an increase in government grants and value added tax subsidies from RMB3.0 million to RMB9.6 million, (ii) a decrease of net fair value losses on convertible notes from RMB5.6 million to nil, and (iii) an increase in net foreign exchange gains from RMB0.2 million to RMB3.5 million; partially offset by an increase of net losses on disposal of investment in associates from nil to RMB3.6 million.

Operating Profit/(Loss)

As a result of the foregoing, we recorded operating profit of RMB38.4 million in the six months ended June 30, 2020 and operating loss of RMB263.7 million in the six months ended June 30, 2021.

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Finance Income and Finance Costs

Our finance income increased by 34.3% from RMB2.7 million in the six months ended June 30, 2020 to RMB3.6 million in the six months ended June 30, 2021, primarily due to an increase in our interest income from bank deposits as our revenue increased and we deposited more cash in bank accounts.

Our finance costs increased by 72.1% from RMB1.4 million in the six months ended June 30, 2020 to RMB2.4 million in the six months ended June 30, 2021, primarily due to an increase of interest expense from borrowings, which was mainly attributable to our increased borrowings in the second half of 2020.

Share of Net (Loss)/Profit of Associates Accounted for Using Equity Method

We recorded share of net profit of associates accounted for using equity method of RMB27 thousand in the six months ended June 30, 2020 and share of net loss of associates accounted for using equity method of RMB1.2 million in the six months ended June 30, 2021. The change was attributable to share of losses from our newly acquired associates.

Fair Value Changes on Convertible Redeemable Preferred Shares and on Convertible Preferred Shares

We did not record any fair value changes on convertible redeemable preferred shares in the six months ended June 30, 2020. We recorded fair value changes on convertible redeemable preferred shares of RMB394.8 million in the six months ended June 30, 2021 in relation to the increased valuation of our company. We did not record any fair value changes on convertible preferred shares in the six months ended June 30, 2020. We recorded fair value changes on convertible preferred shares of RMB324.6 million in the six months ended June 30, 2021 in relation to the increased valuation of our company. We do not expect to record any further fair value changes of the convertible redeemable preferred shares or convertible preferred shares as such preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares immediately prior to the completion of the [REDACTED].

Income Tax Credit/(Expenses)

Our income tax expenses decreased by 45.8% from RMB10.2 million in the six months ended June 30, 2020 to RMB5.5 million in the six months ended June 30, 2021, primarily because of a decrease in our taxable income.

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Year Ended December 31, 2020 Compared with the Year Ended December 31, 2019

Revenues

Our revenues increased by 78.6% from RMB836.3 million in 2019 to RMB1,493.4 million in 2020, which was mainly due to an increase in the revenue generated from value-added services from RMB716.4 million in 2019 to RMB1,357.1 million in 2020, primarily attributable to our users’ increased consumption of virtual items on our *TT Chat* app as a result of the rapid growth of our paying user base, more interactions among our users and their increased willingness to deepen their relationships through virtual gifting, driven by the superior user experience we offer. We had 5.4 million MAUs in 2019, compared to 12.3 million MAUs in the 2020. The number of our average MPUs reached 643.9 thousand in 2020, compared to 385.6 thousand in 2019.

We did not generate any revenues from audio entertainment services in 2019 and achieved rapid growth in revenues since its launch on *TT Chat* app in the second half of 2020. Audio entertainment services allow hosts to monetize user traffic on our platform in our diverse audio entertainment scenarios. Our revenues from audio entertainment services were RMB63.6 million, representing 4.3% of our revenues in 2020.

Cost of Revenues

Our cost of revenues increased by 69.3% from RMB308.4 million in 2019 to RMB522.2 million in 2020. The increase was primarily due to the fast growth of our revenue, and the increase in revenue sharing fees, which accounted for a vast majority of our total cost of revenues. Our revenue sharing fees increased by 56.0% from RMB277.4 million in 2019 to RMB432.6 million in 2020 primarily as a result of the rapid growth of our value-added services as well as the introduction of our audio entertainment services in 2020. The revenue sharing fee as a percentage of our total revenues decreased from 33.2% in 2019 to 29.0% in 2020. Such decrease was mainly due to the decrease in the revenue sharing fees as a percentage of revenues generated from our value-added services (which represented the majority of our total revenues in 2020) from 2019 to 2020, which was partially offset by the higher percentage of revenue sharing fees we incurred for our audio entertainment services where we primarily act as the principal. The decrease of revenue sharing fees as a percentage of revenues generated from our value-added services from 2019 to 2020 was primarily because we lowered the revenues shared with guilds and also due to the higher proportion of revenue generated from decentralized consumption scenarios where users sent virtual gifts to other users.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 84.0% from RMB527.9 million in 2019 to RMB971.2 million in 2020. Our gross profit margins increased slightly from 63.1% in 2019 to 65.0% in 2020 due to the reasons discussed above.

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Selling and Marketing Expenses

Our selling and marketing expenses increased by 123.1% from RMB269.1 million in 2019 to RMB600.4 million in 2020, which was primarily due to an increase in our promotion and advertising expenses from RMB207.5 million in 2019 to RMB522.0 million in 2020, mainly attributable to increased marketing and promoting activities to promote our *TT Chat* brand and services.

Administrative Expenses

Our administrative expenses increased by 364.8% from RMB46.4 million in 2019 to RMB215.8 million in 2020. The increase was primarily attributable to (i) an increase in employee benefit expenses from RMB27.3 million in 2019 to RMB178.7 million in 2020 related to increased compensation to our administrative personnel, including share-based compensations, and (ii) an increase in professional fees from RMB2.6 million in 2019 to RMB16.0 million in 2020 related to our [REDACTED] financing activities.

Research and Development Expenses

Our research and development expenses increased by 62.7% from RMB88.2 million in 2019 to RMB143.4 million in 2020, which was primarily attributable to the increase of R&D headcounts and compensation of our research and development staff, including share-based compensations.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased by 67.0% from RMB3.9 million in 2019 to RMB6.6 million in 2020. The increase was mainly attributable to an increase of loss allowance on other receivables and amounts due from related parties.

Other (Losses)/Gains, Net

We recorded other gains, net of RMB9.1 million and RMB13.1 million in 2019 and 2020, respectively. The change was mainly because we recorded net foreign exchange gains of RMB11.1 million in 2020, compared with nil in 2019.

Operating Profit/(Loss)

As a result of the foregoing, we recorded operating profit of RMB129.3 million in 2019 and RMB18.1 million in 2020.

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Finance Income and Finance Costs

Our finance income increased by 303.0% from RMB2.1 million in 2019 to RMB8.5 million in 2020, primarily due to the increase of interest income from loan receivables and loan to related parties, which primarily relates to the loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors, which has been repaid in full as of June 30, 2021.

Our finance costs increased by 377.6% from RMB0.9 million in 2019 to RMB4.2 million in 2020, primarily due to an increase of interest expense from borrowings from nil in 2019 to RMB3.2 million in 2020, which was mainly attributable to our increased borrowings in 2020.

Share of Net (Loss)/Profit of Associates Accounted for Using Equity Method

We recorded share of net loss of associates accounted for using the equity method of RMB0.9 million in 2019 and RMB0.8 million in 2020.

Fair Value Changes on Convertible Redeemable Preferred Shares and on Convertible Preferred Shares

We did not record any fair value changes on convertible redeemable preferred shares in 2019. We recorded fair value changes on convertible redeemable preferred shares of RMB53.1 million in 2020 in relation to the increased valuation of our company. We did not record any fair value changes on convertible preferred shares in 2019. We recorded fair value changes on convertible preferred shares of RMB109.6 million in 2020 in relation to the increased valuation of our company. We do not expect to record any further fair value changes of the convertible redeemable preferred shares or convertible preferred shares as such preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares immediately prior to the completion of the [REDACTED].

Income Tax Credit/(Expenses)

We recorded income tax credit of RMB1.3 million in 2019 and income tax expenses of RMB12.9 million in 2020, primarily because we had more preferential tax treatment in 2019 than in 2020.

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Revenues

Our revenues increased by 93.2% from RMB432.9 million in 2018 to RMB836.3 million in 2019, which was mainly due to an increase in the revenue generated from value-added services from RMB253.9 million in 2018 to RMB716.4 million in 2019, primarily attributable to our users' increased consumption of virtual items on our *TT Chat* app as a result of the rapid growth of our paying user base, more interactions among our users and their increased willingness to deepen their relationships through virtual gifting, driven by the superior user

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experience we offer. We had 2.2 million MAUs in 2018, compared to 5.4 million MAUs in the 2019. The number of our average MPUs increased rapidly from 161.9 thousand in 2018 to 385.6 thousand in 2019. Our revenue generated from games and others decreased from RMB179.0 million in 2018 to RMB120.0 million in 2019, accounting for 41.4% and 14.3% of our revenues, respectively. As we increasingly focused on our voice-based social network platform as a strategic matter, our revenue generated from games and others decreased.

Cost of Revenues

Our cost of revenues increased by 147.8% from RMB124.5 million in 2018 to RMB308.4 million in 2019. The increase was primarily due to the fast growth of our revenue, and the increase in revenue sharing fees, which accounted for a vast majority of our total cost of revenues. Our revenue sharing fees increased by 139.4% from RMB115.8 million in 2018 to RMB277.4 million in 2019 primarily as a result of the rapid growth of our value-added services and, to a lesser extent, the increase of revenue sharing fees paid to suppliers for our operation of games and other businesses, such as game developers and publishers. The revenue sharing fee as a percentage of our total revenues increased from 26.8% in 2018 to 33.2% in 2019, mainly because we increased the revenues shared with guilds as part of our efforts to drive community interactions and an increase in the revenues shared with game developers.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our overall gross profit increased by 71.2% from RMB308.4 million in 2018 to RMB527.9 million in 2019. Our gross profit margins decreased from 71.2% in 2018 to 63.1% in 2019 due to the reasons discussed above.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 63.9% from 164.3 million in 2018 to RMB269.1 million in 2019, which was primarily due to an increase in our promotion and advertising expenses from RMB125.2 million in 2018 to RMB207.5 million in 2019, mainly attributable to increased marketing and promoting activities to promote our *TT Chat* brand and services.

Administrative Expenses

Our administrative expenses decreased by 45.0% from RMB84.5 million in 2018 to RMB46.4 million in 2019. The decrease was mainly due to a decrease in employee benefit expenses from RMB54.2 million in 2018 to RMB27.3 million in 2019, primarily because we granted share-based compensation to administrative employees in 2018.

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Research and Development Expenses

Our research and development expenses increased by 100.0% from RMB44.1 million in 2018 to RMB88.2 million in 2019, which was primarily attributable to the increase of R&D headcounts and compensation of our research and development staff.

Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets increased by 93.3% from RMB2.0 million in 2018 to RMB3.9 million in 2019. The increase was mainly attributable to increase in loss allowance provided for other receivables and amount due from related parties.

Other (Losses)/Gains, Net

We recorded other losses, net of RMB0.9 million in 2018 and other gains, net of RMB9.1 million in 2019. The change was mainly attributable to an increase of government grants and value added tax subsidies from RMB1.0 million in 2018 to RMB7.6 million in 2019, and partially offset by an increase of net fair value losses on financial assets at fair value through profit or loss in wealth management products.

Operating Profit/(Loss)

As a result of the foregoing, our operating profit increased by 924.2% from RMB12.6 million in 2018 to RMB129.3 million in 2019.

Finance Income and Finance Costs

Our finance income increased by 97.9% from RMB1.1 million in 2018 to RMB2.1 million in 2019, primarily due to the increase of our interest income from bank deposits as we deposited more cash in bank accounts. Our finance costs increased by 13.6% from RMB0.8 million in 2018 to RMB0.9 million in 2019.

Share of Net (Loss)/Profit of Associates Accounted for Using Equity Method

Our share of net loss of associates accounted for using equity method increased from RMB0.5 million in 2018 to RMB0.9 million in 2019, primarily due to the increase in losses of our associates.

Income Tax Credit/(Expenses)

Our income tax credits were RMB0.9 million and RMB1.3 million in 2018 and 2019, respectively.

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DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which has been extracted from the Accountant’s Report included in Appendix I to this Document:

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>(RMB in thousands)</i>			2021
ASSETS				
Non-current asset				
Property and equipment	42,405	25,626	32,041	36,590
Investment properties	–	14,620	15,300	16,080
Right-of-use assets	22,685	24,734	18,489	137,957
Intangible assets	7,346	49,795	243,376	302,743
Financial assets at fair value				
through profit or loss	1,809	2,074	6,136	5,857
Prepayments	–	5,300	8,043	1,000
Amounts due from related parties	–	–	89,717	–
Investments in associates	6,745	5,056	8,724	53,658
Deferred tax assets	1,287	2,575	4,224	5,074
Total non-current assets	82,277	129,780	426,050	558,959
Current assets				
Trade receivables	41,399	35,176	46,797	38,245
Prepayments and other current assets	42,684	61,302	79,732	93,597
Amounts due from related parties	53,030	104,065	182,430	–
Financial assets at fair value				
through profit or loss	22,000	73,000	–	760
Restricted cash	–	–	–	2,452
Cash and cash equivalents	41,162	78,310	629,319	794,829
Total current assets	200,275	351,853	938,278	929,883
Total assets	282,552	481,633	1,364,328	1,488,842

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	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>(RMB in thousands)</i>			2021
EQUITY/(DEFICIT) AND LIABILITIES				
Equity/(deficit) attributable to equity holders of the Company				
Share capital	–	–	47	47
Other reserves	179,914	196,065	36,620	195,696
Accumulated losses	(71,533)	(17,825)	(283,059)	(1,493,800)
	108,381	178,240	(246,392)	(1,297,942)
Non-controlling interests	–	2,485	723	(2,733)
	108,381	180,725	(245,669)	(1,300,675)
Non-current liabilities				
Lease liabilities	21,052	19,913	13,145	114,608
Deferred tax liabilities	–	–	–	5,480
Convertible redeemable preferred shares	–	–	746,193	1,565,565
Convertible preferred shares	–	–	314,726	642,149
	21,052	19,913	1,074,064	2,327,802
Current liabilities				
Borrowings	–	–	126,500	–
Amount due to related parties	–	69,360	35,234	–
Accounts payable	114,021	112,964	116,543	144,910
Other payables and accruals	27,206	75,963	184,920	218,608
Contract liabilities	8,512	15,772	57,957	69,446
Income tax payable	–	–	6,731	2,843
Lease liabilities	3,380	6,936	8,048	25,908
	153,119	280,995	535,933	461,715
Total current liabilities	153,119	280,995	535,933	461,715
Total liabilities	174,171	300,908	1,609,997	2,789,517
Total equity and liabilities	282,552	481,633	1,364,328	1,488,842

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Net Current Assets and Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated:

	As of December 31,			As of	As of
	2018	2019	2020	June 30,	August 31,
	<i>(RMB in thousands)</i>			2021	2021
				<i>(unaudited)</i>	
Current assets					
Trade receivables	41,399	35,176	46,797	38,245	42,871
Prepayments and other current assets	42,684	61,302	79,732	93,597	108,591
Amounts due from related parties	53,030	104,065	182,430	–	–
Financial assets at fair value through profit or loss	22,000	73,000	–	760	130,118
Restricted cash	–	–	–	2,452	2,452
Cash and cash equivalents	41,162	78,310	629,319	794,829	665,472
Total current assets	<u>200,275</u>	<u>351,853</u>	<u>938,278</u>	<u>929,883</u>	<u>949,504</u>
Borrowings	–	–	126,500	–	–
Amount due to related parties	–	69,360	35,234	–	–
Accounts payable	114,021	112,964	116,543	144,910	134,220
Other payables and accruals	27,206	75,963	184,920	218,608	212,809
Contract liabilities	8,512	15,772	57,957	69,446	63,261
Income tax payable	–	–	6,731	2,843	–
Lease liabilities	3,380	6,936	8,048	25,908	29,499
Total current liabilities	<u>153,119</u>	<u>280,995</u>	<u>535,933</u>	<u>461,715</u>	<u>439,789</u>
Net current assets	<u><u>47,156</u></u>	<u><u>70,858</u></u>	<u><u>402,345</u></u>	<u><u>468,168</u></u>	<u><u>509,715</u></u>

We had net current assets of RMB47.2 million, RMB70.9 million, RMB402.3 million, RMB468.2 million and RMB509.7 million, respectively, as of December 31, 2018, 2019, 2020, June 30, 2021 and August 31, 2021.

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Our net current assets increased from RMB47.2 million as of December 31, 2018 to RMB70.9 million as of December 31, 2019, primarily due to (i) an increase in financial assets at fair value through profit or loss from RMB22.0 million as of December 31, 2018 to RMB73.0 million as of December 31, 2019 as a result of the increase of our wealth management products, and (ii) an increase in amounts due from related parties from RMB53.0 million as of December 31, 2018 to RMB104.1 million as of December 31, 2019, which were mainly related to certain loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors, which had been repaid in full as of June 30, 2021, partially offset by (i) an increase in amount due to related parties from nil as of December 31, 2018 to RMB69.4 million as of December 31, 2019, mainly due to the special dividend we granted to our certain early investors, and (ii) an increase in other payables and accruals from RMB27.2 million as of December 31, 2018 to RMB76.0 million as of December 31, 2019 as a result of an increase in acquisition costs and payable for e-Sports licenses and contracts.

Our net current assets increased from RMB70.9 million as of December 31, 2019 to RMB402.3 million as of December 31, 2020, primarily due to (i) an increase in cash and cash equivalents from RMB78.3 million as of December 31, 2019 to RMB629.3 million as of December 31, 2020 as a result of increases in cash generated from our operations and our [REDACTED] financing activities in 2020, (ii) an increase in amounts due from related parties from RMB104.1 million as of December 31, 2019 to RMB182.4 million as of December 31, 2020, which were mainly related to certain loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors, which had been repaid in full as of June 30, 2021, partially offset by (i) an increase in borrowings from nil as of December 31, 2019 to RMB126.5 million as of December 31, 2020 as we entered into bank loans to meet our cash needs in operations, and (ii) an increase in other payables and accruals from RMB76.0 million as of December 31, 2019 to RMB184.9 million as of December 31, 2020, which was primarily due to increases in acquisition costs and payable for e-Sports licenses and contracts, e-Sports licenses fee payables and marketing and promotion fee payables.

Our net current assets increased from RMB402.3 million as of December 31, 2020 to RMB468.2 million as of June 30, 2021, primarily due to (i) an increase in cash and cash equivalents from RMB629.3 million as of December 31, 2020 to RMB794.8 million as of June 30, 2021 as a result of increases in cash generated from our operations and our series C financing activities, and (ii) a decrease in borrowings from RMB126.5 million as of December 31, 2020 to nil as of June 30, 2021, because we paid the outstanding borrowing amount in full, partially offset by a decrease in amounts due from related parties from RMB182.4 million as of December 31, 2020 to nil as of June 30, 2021 as a result of full repayment of the loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors.

Our net current assets increased from RMB468.2 million as of June 30, 2021 to RMB509.7 million as of August 31, 2021, primarily due to an increase in prepayments and other current assets from RMB93.6 million to RMB108.6 million, mainly as a result of our increased prepayment in operations.

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Assets

Right-of-use Assets

Our right-of-use assets were RMB22.7 million, RMB24.7 million, RMB18.5 million and RMB138.0 million, respectively, as of December 31, 2018, 2019 and 2020 and June 30, 2021. Our right-of-use assets represent our office buildings.

Property and Equipment

Our property and equipment consist primarily of our buildings, servers, computers and electronic equipment. Our property and equipment were RMB42.4 million, RMB25.6 million, RMB32.0 million and RMB36.6 million, as at December 31, 2018, 2019 and 2020 and June 30, 2021, respectively.

Intangible Assets

Our intangible assets consist mainly of eSports licenses and contracts, eSports players’ rights, online game licenses and good will. Our intangible assets were RMB7.3 million, RMB49.8 million, RMB243.4 million and RMB302.7 million, respectively, as of December 31, 2018, 2019 and 2020 and June 30, 2021. Throughout the Track Record Period, our intangible assets have continued to increase, primarily as a result of our strategic acquisitions of eSports licenses and players’ rights as well as our acquisition of Uki Group Company in April, 2021. See “History, Reorganization and Corporate Structure – Major Acquisitions, Disposals and Mergers.”

Investments in Associates

Investments accounted for using the equity method are related to our investments in associates, which amounted to RMB6.7 million, RMB5.1 million, RMB8.7 million and RMB53.7 million, respectively, as of December 31, 2018, 2019 and 2020 and June 30, 2021. The change in our investment in associates throughout the Track Record Period relates primarily to our increased investments in associates.

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Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss consist of both current and non-current portions. The non-current portion consists of investments in unlisted entities. The current portion consists of wealth management products, forward contracts and loan receivables with conversion options. The following table sets forth our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of
	2018	2019	2020	June 30
	<i>(RMB in thousands)</i>			2021
Non-current				
Investments in unlisted entities	1,809	2,074	6,136	5,857
Current				
Wealth management products	22,000	63,000	–	–
Forward contracts	–	–	–	760
Loan receivables with conversion options	–	10,000	–	–
	22,000	73,000	–	760
Total	23,809	75,074	6,136	6,617

Our current financial assets at fair value through profit or loss increased from RMB0.8 million as of June 30, 2021 to RMB130.1 million as of August 31, 2021 primarily as a result of our purchase of wealth management products.

During the Track Record Period, we primarily invested in wealth management products, unlisted entities and loan receivables with conversion options. In 2018 and 2019, we invested in wealth management products, including low-risk wealth management products with maturity period within one year issued by reputable financial institutions in China. Our investments in unlisted entities and loan receivables with conversion options related to our investments in private companies. We have adopted an internal policy in relation to our investments and established an Investment Committee with members from our financial and business departments. Our business departments or chairman’s office are responsible for proposing and analyzing potential investment. Upon review of the investment plan, our chairman’s office would organize an investment management task force to conduct due diligence to the extent appropriate. The task force would coordinate with our chairman’s office, finance department, legal department and internal control department to formulate an opinion towards the investment plan from their relevant perspectives and submit to our Investment Committee for approval. After making investments in private companies, we regularly monitor our investees’ operational and financial results as well as general performance of our investment portfolio to assess and make adjustment to our investments.

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Trade Receivables

Our trade receivables consist primarily of outstanding amounts payable by third parties and related parties in our ordinary course of business. Our trade receivables were RMB41.4 million, RMB35.2 million, RMB46.8 million and RMB38.2 million, as at December 31, 2018, 2019 and 2020 and June 30, 2021, respectively.

The following table sets forth the detail information of trade receivables during the Track Record Period:

	As of December 31,			As of
	2018	2019	2020	June 30
	<i>(RMB in thousands)</i>			2021
Trade receivables				
– Third party debtors	42,044	37,386	47,171	39,244
– Related parties	1,596	329	50	50
	<u>43,640</u>	<u>37,715</u>	<u>47,221</u>	<u>39,294</u>
Total trade receivables, gross				
Less: Loss allowance	(2,241)	(2,539)	(424)	(1,049)
	<u>41,399</u>	<u>35,176</u>	<u>46,797</u>	<u>38,245</u>
Total trade receivables, net				

As of August 31, 2021, RMB10.13 million, or 26% of our trade receivables outstanding as of June 30, 2021, had been subsequently settled.

Amounts Due from Related Parties

As at December 31, 2018, 2019, 2020, June 30, 2021 and August 31, 2021, our amounts due from related parties were RMB53.0 million, RMB104.1 million, RMB272.1 million nil, and nil, respectively. The amounts due from related parties increased from 2018 to 2020 were mainly related to certain loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors, which had been repaid in full as of June 30, 2021. The amounts due from related parties decreased from as of the end of 2020 to as of June 30, 2021 primarily because of the full repayment of the loans we extended to Mr. Song Ke and his affiliates to buy out certain early investors.

Prepayments and Other Assets

Our prepayments and other assets consist primarily of (i) prepaid marketing and promotion expenses; (ii) prepaid revenue sharing fee; and (iii) prepaid technical service fee. Our prepayments and other assets were RMB42.7 million, RMB66.6 million, RMB87.8 million and RMB94.6 million, as of December 31, 2018, 2019, 2020 and June 30, 2021. Of the prepayments and other assets, RMB42.7 million, RMB61.3 million, RMB79.7 million and

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RMB93.6 million were prepayments and other current assets, as of December 31, 2018, 2019, 2020 and June 30, 2021, respectively. As of August 31, 2021, we had prepayments and other current assets of RMB108.6 million. Our prepayments and other assets increased throughout the Track Record Period primarily as a result of our increased prepayment in operations as our business grows.

Cash and Cash Equivalents

Our cash and cash equivalents consist primarily of cash at bank and time deposits with maturities of less than three months. Our cash and cash equivalents were RMB41.2 million, RMB78.3 million, RMB629.3 million, RMB794.8 million and RMB665.5 million, respectively, as of December 31, 2018, 2019, 2020, June 30 and August 31, 2021. Our cash and cash equivalents increased significantly during the Track Record Period primarily due to increased cash generated from our operations and our [REDACTED] financing activities. Our cash and cash equivalents decreased from RMB794.8 million as of June 30, 2021 to RMB665.5 million as of August 31, 2021 primarily as a result of our purchase of wealth management products.

Liabilities

Borrowings

Our borrowings were nil, nil, RMB126.5 million, nil and nil, respectively, as of December 31, 2018, 2019, 2020, June 30, 2021 and August 31, 2021. The borrowings recorded in 2020 consists of RMB46.5 million of current and secured bank loan and RMB80.0 million current and unsecured bank loans. The effective interest rate of these borrowings is 4.00% to 4.85% per annum. The interest rates under the loan agreements with the banks were determined based on the prevailing interest rates in the market.

Amount Due to Related Parties

We had amount due to related parties of nil, RMB69.4 million, RMB35.2 million, nil, and nil, respectively, as of December 31, 2018, 2019, 2020, June 30 and August 31, 2021. The amount due to related parties of RMB69.4 million as of December 2019 was related to the special dividend we granted to our certain early investors, and the RMB35.2 million of amount due to related parties recorded as of December 31, 2020 was related to the repurchase of ordinary shares indirectly held by key management. See Note 26 to the Accountant’s Report set out in Appendix I to this Document for details.

Other Payables and Accruals

Our other payable and accruals primarily during the Track Record Period primarily consist of (i) employee benefit payables; (ii) acquisition costs payable for eSports licenses and contracts; and (iii) eSports licenses fee payables; and (iv) acquisition cost payable for an associate. Other payables and accruals increased from RMB27.2 million as of December 31, 2018 to RMB76.0 million as of December 31, 2019, primarily due to (i) incurrence of acquisition costs payable for eSports licenses and contracts; and (ii) the increase in our

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employee benefits payables. Other payables and accruals then increased to RMB184.9 million as of December 31, 2020, primarily due to (i) the increase in our acquisition costs payable for eSports licenses and contracts; (ii) the increase in marketing and promotion fee payables; and (iii) incurrence of eSports licenses fee payables. Other payables and accruals then slightly increased to RMB218.6 million as of June 30, 2021 primarily attributable to the increases in marketing and promotion fee payables and decreased slightly to RMB212.8 million as of August 31, 2021.

Accounts Payables

Our accounts payables consist primarily of the revenue sharing fee payable to guilds, users and online game content providers. During the Track Record Period, our accounts payables were RMB114.0 million, RMB113.0 million, RMB116.5 million, RMB144.9 million and RMB134.2 million as of December 31, 2018, 2019, 2020, June 30 and August 31, 2021, respectively.

The following table sets forth the aging analysis based on invoice date of our accounts payables.

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>(RMB in thousands)</i>			2021
Up to 3 months	95,990	106,127	113,064	141,915
3 to 6 months	10,597	5,027	2,069	800
6 months to 1 year	7,434	1,810	1,410	2,195
Over 1 year	—	—	—	—
	<u>114,021</u>	<u>112,964</u>	<u>116,543</u>	<u>144,910</u>

As of August 31, 2021, RMB127.3 million, or 88% of our accounts payables outstanding as of June 30, 2021, had been subsequently settled.

Lease Liabilities

Lease liabilities represent the present value of outstanding lease payments under our lease agreements. We recorded non-current lease liabilities of RMB21.1 million, RMB19.9 million, RMB13.1 million and RMB114.6 million, respectively, as of December 31, 2018, 2019, 2020 and June 30, 2021. We recorded current lease liabilities of RMB3.4 million, RMB6.9 million, RMB8.0 million, RMB25.9 million and RMB29.5 million, respectively, as of December 31, 2018, 2019, 2020, June 30, 2021 and August 31, 2021. During the Track Record Period, we have obtained the right to use certain office buildings through lease agreements with term typically running for an initial period of one to six years.

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Contract Liabilities

Our contract liabilities primarily related to advances for the purchase of virtual items and advanced cash receipt. We recorded contract liabilities of RMB8.5 million, RMB15.8 million, RMB58.0 million, RMB69.4 million and RMB63.3 million as of December 31, 2018, 2019, 2020, June 30 and August 31, 2021, respectively. Our contract liabilities increased during the Track Record Period mainly due to the increases in our paying users and their spending on our *TT Chat* app.

Convertible Redeemable Preferred Shares and Convertible Preferred Shares

Since our inception, we have completed several rounds of financing by issuing convertible redeemable preferred shares to investors, namely, series A preferred shares, series B preferred shares, series B+ preferred shares and series C preferred shares. We recorded convertible redeemable preferred shares of nil, nil, RMB746.2 million and RMB1,565.6 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. We also issued series Angel preferred shares, recorded as convertible preferred shares of nil, nil, RMB314.7 million and RMB642.1 million as of December 31, 2018, 2019 and 2020 and June 30, 2021, respectively. See Note 32 and 33 to the Accountant’s Report set out in Appendix I to this Document for details. Since June 30, 2021 and up to August 31, 2021, we did not issue or repurchase any convertible redeemable preferred shares and convertible preferred shares. We do not expect to record any further convertible redeemable preferred shares as such preferred shares will be re-designated from liabilities to equity as a result of the automatic conversion into ordinary shares immediately prior to the completion of the [REDACTED].

The convertible redeemable preferred shares and convertible preferred shares issued by the Company are not traded in an active market, and the respective fair value is determined by using valuation techniques. We applied the discounted cash flow method to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares and convertible preferred shares. Key assumptions such as the discount rate, risk-free interest rate, lack of marketability discount and volatility, as well as the probability weight among the timing of the liquidation, redemption or [REDACTED] event scenarios based on our best estimates, which is disclosed in Note 32 of the Accountant’s Report set out in Appendix I to this Document.

In relation to the valuation of the convertible redeemable preferred shares and convertible preferred shares, our Directors adopted the following procedures: (i) reviewed the terms of the [REDACTED] Investment Agreement and the [REDACTED] Shareholders Agreement; (ii) engaged an independent suitably qualified valuer, provided material information that is likely to affect the valuation as part of the instructions to the valuer, so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions and valuation methodologies; (iii) carefully considered all information which require management assessments and estimates, including probabilities under different scenarios, time to liquidation and discount for lack of marketability; and (iv) reviewed the valuation working papers and valuation report prepared by the valuer and carefully considered, the reasonableness of key input data and major assumptions adopted. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable.

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LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from cash generated from our operations and capital contributions from shareholders. After the [REDACTED], we intend to finance our future capital requirements through equity financing activities and debt financing activities in a balanced manner. We do not anticipate any changes to the availability of financing to fund our operation in the future.

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30, 2020	2021
	<i>(RMB in thousands)</i>				
	<i>(unaudited)</i>				
Net cash generated from/(used in) operating activities	100,323	197,344	258,096	142,498	(42,847)
Net cash (used in)/generated from investing activities	(102,095)	(154,324)	(316,534)	(158,945)	199,674
Net cash (used in)/generated from financing activities	<u>(3,032)</u>	<u>(5,872)</u>	<u>609,339</u>	<u>183,457</u>	<u>13,819</u>
Net (decrease)/increase in cash and cash equivalents	(4,804)	37,148	550,901	167,010	170,646
Cash and cash equivalents at the beginning of the year/period	45,966	41,162	78,310	78,310	629,319
Effects of exchange rate changes on cash and cash equivalents	<u>—</u>	<u>—</u>	<u>108</u>	<u>(13)</u>	<u>(5,136)</u>
Cash and cash equivalents at the end of the year/period	<u><u>41,162</u></u>	<u><u>78,310</u></u>	<u><u>629,319</u></u>	<u><u>245,307</u></u>	<u><u>794,829</u></u>

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Net Cash Generated from/(Used in) Operating Activities

In the six months ended June 30, 2021, our net cash used in operating activities was RMB42.8 million. The difference between our net cash used in operating activities and our loss before income tax primarily resulted from (i) fair value change of convertible redeemable preferred shares of RMB394.8 million, (ii) fair value change of convertible preferred shares of RMB324.6 million, (iii) share-based compensation expenses of RMB135.0 million, and (iv) increase in other payables and accruals of RMB53.7 million, partially offset by (i) decrease in trade and other receivables of RMB28.8 million and (ii) increase in amount due from related parties of RMB3.3 million.

In 2020, our net cash generated from operating activities was RMB258.1 million. The difference between our net cash provided by operating activities and our income before income tax primarily resulted from (i) fair value change of convertible preferred shares of RMB109.6 million, (ii) share-based compensation expenses of RMB108.2 million; (iii) increase in other payables and accruals of RMB71.5 million; (iv) fair value change of convertible redeemable preferred shares of RMB53.1 million; and (v) decrease in contract liabilities of RMB42.2 million, partially offset by (i) increase in trade and other receivables of RMB31.4 million and (ii) increase in prepayments of RMB8.6 million.

In 2019, our net cash generated from operating activities was RMB197.3 million. The difference between our net cash provided by operating activities and our income before income tax primarily resulted from (i) increase in amount due to related parties of RMB69.4 million and (ii) decrease in amount due from related parties of RMB20.9 million, partially offset by (i) decrease in other payables and accruals of RMB41.6 million; (ii) increase in prepayments of RMB6.0 million; and (iii) increase in trade and other receivables of RMB8.8 million.

In 2018, our net cash generated from operating activities was RMB100.3 million. The difference between our net cash used in operating activities and our profit before income tax primarily resulted from (i) share-based compensation of RMB39.3 million, (ii) decrease in amount due from related parties of RMB33.8 million, (iii) increase in other payables and accruals of RMB16.8 million, partially offset by (i) increase in prepayments of RMB19.7 million and (ii) decrease in contract liabilities of RMB8.4 million.

Net Cash (Used in)/Generated from Investing Activities

In the six months ended June 30, 2021, our net cash generated from investing activities was RMB199.7 million, consisting primarily of proceeds from loan to related parties of RMB284.0 million, partially offset by (i) payment for purchase of e-Sports licenses and contracts of RMB40.0 million, and (ii) addition in investments in associates of RMB30.0 million.

In 2020, our net cash used in investing activities was RMB316.5 million, primarily attributable to (i) loans to related parties of RMB284.0 million, (ii) payment for purchase of e-Sports licenses and contracts of RMB161.3 million, and (iii) purchase of investments in current financial assets at fair value through profit or loss of RMB60.0 million, partially offset by (i) proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB123.2 million and (ii) proceeds from loan to related parties of RMB104.4 million.

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In 2019, our net cash used in investing activities was RMB154.3 million, primarily attributable to (i) purchase of investments in current financial assets at fair value through profit or loss of RMB449.0 million, (ii) loan to other parties of RMB71.4 million, and (iii) payment for purchase of e-Sports licenses and contracts of RMB26.2 million, partially offset by proceeds from disposal of investments in current financial assets at fair value through profit or loss of RMB399.3 million.

In 2018, our net cash used in investing activities was RMB102.1 million, consisting primarily of (i) purchase of property, equipment and intangible assets of RMB42.2 million, (ii) loan to related parties of RMB33.0 million, and (iii) purchase of investments in current financial assets at fair value through profit or loss of RMB22.0 million.

Net Cash (Used in)/Generated from Financing Activities

In the six months ended June 30, 2021, our net cash generated from financing activities was RMB13.8 million, primarily attributable to proceeds from issuance of convertible redeemable preferred shares of RMB290.7 million, partially offset by (i) repayment of borrowings of RMB126.5 million, (ii) dividend paid of RMB91.5 million, and (iii) payment of repurchase of ordinary shares of RMB55.2 million.

In 2020, our net cash generated from financing activities was RMB609.3 million, primarily attributable to (i) proceeds from issuance of convertible redeemable preferred shares of RMB522.4 million, (ii) proceeds from issuance of convertible notes of RMB177.0 million, and (iii) proceeds from borrowings of RMB126.5 million, partially offset by (i) dividend paid of RMB147.0 million and (ii) payment of repurchase of ordinary shares of RMB58.7 million.

In 2019, our net cash used in financing activities was RMB5.9 million, which represents our payment of lease liabilities.

In 2018, our net cash used in financing activities was RMB3.0 million, which represents our payment of lease liabilities.

Working Capital

Our Directors are of the opinion that taking into account the estimated [REDACTED] from the [REDACTED] and the expected cash generated from operating activities, we have sufficient working capital for our present requirements and for the next 12 months from the date of this Document.

CAPITAL EXPENDITURES

Our principal capital expenditures primarily consist of payments for property and equipment and intangible assets.

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The following table sets forth our capital expenditures for the periods indicated.

	For the year ended December 31,			For the six months ended
	2018	2019	2020	June 30, 2021
	<i>(RMB in thousands)</i>			
Payments for property and equipment	42,150	4,281	10,864	8,204
Payments for intangible assets	4,813	31,821	186,889	52,468
Total	46,963	36,102	197,753	60,672

We expect to finance our capital expenditures through cash generated from operations, cash generated from our [REDACTED] financing activities. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, results of operations and financial condition, our business plans, market conditions and various other factors. See also “Future Plans and Use of [REDACTED] – Use of [REDACTED].”

INDEBTEDNESS

Borrowings

The following table sets forth our borrowing as of the dates indicated:

	As of December 31,			As of June 30,	As of August 31,
	2018	2019	2020	2021	2021
	<i>(RMB in thousands)</i>				
Current and secured					
Bank loan	–	–	46,500	–	–
Current and unsecured					
Bank loan	–	–	80,000	–	–
Total	–	–	125,600	–	–

As of as of December 31, 2018, 2019, 2020 and June 30, 2021, our borrowings were nil, nil, RMB126.5 and nil, respectively. The borrowings recorded in 2020 consists of RMB46.5 million of current and secured bank loan and RMB80.0 million current and unsecured bank loans. As of Latest Practicable Date, we did not have any banking facilities.

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Lease Liabilities

Our lease liabilities are in relation to properties that we lease primarily for our office premises. The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of	As of
	2018	2019	2021	June 30,	August 31,
				2021	2021
	<i>(RMB in thousands)</i>				
Lease liabilities					
Current	3,380	6,936	8,048	25,908	29,499
Non-current	21,052	19,913	13,145	114,608	113,467
Total	24,432	26,849	21,193	140,516	142,966

Convertible Redeemable Preferred Shares and Convertible Preferred Shares

Convertible Redeemable Preferred Shares

As of December 31, 2018, 2019 and 2020 and June 30, 2021, our convertible redeemable preferred shares had fair value of nil, nil, RMB746.2 million and RMB1,565.6 million, respectively. For further information regarding our convertible redeemable preferred shares, see note 32 to the Accountant’s Report included in Appendix I to this document. From June 30, 2021 to Latest Practicable Date, we did not issue or repurchase any convertible redeemable preferred shares.

Convertible Preferred Shares

As of December 31, 2018, 2019 and 2020 and June 30, 2021, our convertible preferred shares had fair value of nil, nil, RMB314.7 million and RMB642.1 million, respectively. For further information regarding our convertible preferred shares, see note 33 to the Accountant’s Report included in Appendix I to this document. From June 30, 2021 to Latest Practicable Date, we did not issue or repurchase any convertible preferred shares.

CONTINGENT LIABILITIES

We did not have any material contingent liabilities as of December 31, 2018, 2019, and 2020, June 30, 2021 and August 31, 2021, respectively. Except as disclosed above, as of August 31, 2021, being the indebtedness date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there is no material change in our indebtedness since August 31, 2021 and up to the Latest Practicable Date.

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CONTRACTUAL OBLIGATIONS

Capital Commitments

As at December 31, 2018, 2019 and 2020, and June 30, 2021, the Group had no material capital commitments.

For details of capital commitments, see Note 36 to the Accountant’s Report set out in Appendix I to this Document.

Operating Leases

We lease various offices under non-cancellable operating leases expiring within two months to six years. We have recognized right-of-use assets for these leases, except for short-term and low-value leases, see Note 15 to the Accountant’s Report in Appendix I to this document for further information. The following table sets forth our operating leases commitments as of the dates indicated.

	As of December 31,			As of
	2018	2019	2020	June 30, 2021
	<i>(RMB in thousands)</i>			
Office	145	1,174	2,441	872

KEY FINANCIAL RATIO

We believe that total revenue growth, total gross margin and adjusted net margin can provide an important measure of the efficiency of our operations over time. The following table sets forth a summary of our total revenue growth, total gross margin and adjusted net margin for the periods indicated.

	For the year ended December 31,			For the six months	
	2018	2019	2020	ended June 30, 2020	2021
Total revenue growth (%)	–	93.2	78.6	–	94.9
Total gross margin (%) ⁽¹⁾	71.2	63.1	65.0	67.2	58.9
Adjusted net margin (%) ⁽²⁾	12.2	16.9	10.1	11.9	0.4

Notes:

- (1) Total gross margin equals gross profit divided by revenues for the year/period.
- (2) Adjusted net margin represents adjusted net income as a percentage of revenues of such year/period. For details of the adjusted net income, see “– Non-IFRS Measures – Adjusted Net Income.”

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Revenue Growth

Our revenue growth decreased from 93.2% in 2019 to 78.6% in 2020, then increased to 94.9% in the six months ended June 30, 2021. See “– Discussion of Results of Operations” in this section for the analysis on our revenue growth.

Gross Margin

Our gross margin decreased from 71.2% in 2018 to 63.1% in 2019 and further to 65.0% in 2020, and from 67.2% in the six months ended June 30, 2020 to 58.9% for the same period in 2021. See “– Discussion of Results of Operations” in this section for the analysis on our revenue growth.

Adjusted Net Margin

Our adjusted net margin, a non-IFRS measure, was 12.2%, 16.9%, 10.1%, 11.9% and 0.4% in 2018, 2019, 2020 and the six months ended June 30, 2020 and June 30, 2021, respectively. See “– Non-IFRS Measures – Adjusted Net Income” in this section for the analysis on our adjusted net margin.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholder’s equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

RELATED PARTY TRANSACTIONS AND BALANCES

We enter into transactions with our related parties from time to time. Our Directors are of the view that each of the related party transactions set out in Note 35 to the Accountant’s Report included in Appendix I to this Document was conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or cause our historical results to become non-reflective of our future performance.

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QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT FINANCIAL RISKS

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and security price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Market Risk

(i) Foreign exchange risk

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of our subsidiaries. We manage our foreign exchange risk by minimizing non-functional currency transactions.

We operate mainly in the PRC with most of the transactions settled in RMB. As at December 31, 2018 and 2019, our management considers the business is not exposed to significant foreign exchange risk as there are no significant assets or liabilities of ours are denominated in the currencies other than the respective functional currencies of our entities.

As at December 31, 2020 and June 30, 2020 and 2021, we were exposed to foreign exchange risk primarily with respect to the potential effects on profit or loss from translation in intercompany balances which are not denominated in functional currency of the relevant group companies and USD forward contract which does not qualify for hedge accounting. RMB appreciation against USD during the year is the major reason for the exchange differences recognized by us. Further appreciation of USD against RMB will affect our financial position and results of operations.

(ii) Interest rate risk

Except for bank deposit at variable interest rate bank and time deposits loan receivables and amounts due from related parties at fixed interest rate, we have no other significant interest-bearing assets.

Our exposure to changes in interest rates is mainly attributable to our bank borrowings, convertible redeemable preferred shares, convertible preferred shares and convertible notes which are at fixed interest rate. The interest rate and terms of repayments of borrowings, convertible redeemable preferred shares and convertible preferred shares are disclosed in “– Borrowings.” and “Convertible Redeemable Preferred Shares and Convertible Preferred Shares”

We have not hedged our cash flow and fair value interest rate risk.

Our management does not anticipate significant impact to the convertible redeemable preferred shares, convertible preferred shares, bank borrowings and convertible notes resulted from the changes in market interest rates. Moreover, given the stability of the interest rate in

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the recent financial market, in the opinion of our Directors, the exposure of the convertible preferred shares, convertible preferred shares, bank borrowings and convertible notes to fair value interest rate risk is considered to be low. Therefore, no sensitivity analysis is performed.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rate because the interest rates of bank deposits are not expected to change significantly.

(iii) Price risk

We are exposed to security price risk in respect of the financial assets measured at fair value through profit or loss and wealth management products. We are generally not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our investment portfolio.

Credit Risks

Credit risk mainly arises from cash and cash equivalents, restricted cash, trade receivables, other receivables and amounts due from related parties. The carrying amount of these financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

Trade and other receivables are managed on a group basis. The finance team is responsible for managing and analyzing the credit risk for each new debtor before payment terms are offered. We assess the credit quality of our customers and other debtors by taking into account various factors including their financial position, past operational and financial performance and other factors.

Cash and cash equivalents and restricted cash are mainly placed with reputable PRC and international financial institutions within PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is not material.

Liquidity Risks

We intend to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products or to retain adequate financing arrangements to meet the our liquidity requirements.

For more information about our financial risks, see the Accountant's Report included in Appendix I to this Document.

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DIVIDEND AND DIVIDEND POLICY

For the years ended December 31, 2019 and 2020, the Guangzhou Quwan has declared special dividends approximately of RMB69.4 million, RMB112 million, respectively. No dividends have been paid or declared by the Company during each of the years ended December 31, 2018 and the six months ended June 30, 2020. For details, see Note 25 to the Accountant’s Report set out in Appendix I to this Document.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividends will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year determined according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves until the aggregate amount of such fund reaches 50% of its registered capital, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

Any future determination to pay dividends will be made at the discretion of our Directors and may be based on a number of factors, including our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors may deem relevant. As advised by our Cayman Islands counsel, under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be declared or paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. [REDACTED] should not purchase our shares with the expectation of receiving cash dividends.

PROPERTIES AND VALUATION

AVISTA Valuation Advisory Limited, an independent property valuer, has valued our property interests as of August 31, 2021. Particulars of our property interests are set out in “Appendix III – Property Valuation Report” to this Document.

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The table below sets out the reconciliation between the net book value of our property as of June 30, 2021 in the Accountant’s Report set out in Appendix I to this Document and the market value of our property as of August 31, 2021 in the Property Valuation Report set out in Appendix III to this Document.

	<i>(RMB in thousands)</i>
Net book value of our property as of June 30, 2021	29,385
Capital expenditures	0
Depreciation and adjustments	<u>(75)</u>
Net book value as of August 31, 2021	29,310
Valuation surplus as of August 31, 2021	<u>970</u>
Valuation as of August 31, 2021 as set out in Appendix III to this Document	<u><u>28,340</u></u>

DISTRIBUTABLE RESERVES

As of June 30, 2021, we did not have any distributable reserves.

[REDACTED] EXPENSES

The total [REDACTED] expenses (including [REDACTED]) payable by our Company are estimated to be approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of our [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), of which approximately RMB[REDACTED] is expected to be charged to our consolidated statement of comprehensive income and approximately RMB[REDACTED] is expected to be charged against equity upon the [REDACTED]. These [REDACTED] expenses mainly comprise professional fees paid and payable to professional parties, and [REDACTED] payable to the [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED]. The estimated amount of [REDACTED] expenses will account for approximately [REDACTED]% of the gross [REDACTED] of the [REDACTED] (assuming the [REDACTED] is not exercised).

[REDACTED]

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[REDACTED]

PROFIT/(LOSS) ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2021⁽¹⁾

Our Directors estimate, on the bases set out in Appendix IIA to this document, and in the absence of unforeseen circumstances, the estimated consolidated profit of our Group and unaudited [REDACTED] estimated profit per Share for the year ended December 31, 2021 as follows:

Estimated consolidated profit of our Group for the year ended December 31, 2021 attributable to:

	No less than <i>RMB' million</i>
Owners of the Company	[●]
Unaudited [REDACTED] estimated basic and diluted profit per Share for the year ended December 31, 2021 ⁽²⁾⁽³⁾⁽⁴⁾	No less than RMB[REDACTED]

FINANCIAL INFORMATION

Notes:

- (1) The profit/(loss) estimate, for which our Directors are solely responsible, has been prepared by them based on (i) the audited consolidated results of our Group for the [nine months ended September 30, 2021] and (ii) the unaudited consolidated results based on the management accounts of the Group for the three months ended December 31, 2021. The profit/(loss) estimate has been prepared on a basis consistent in all material respects with the accounting policies that we normally adopt as set out in the Accountant’s Report, the text of which is set out in Appendix I to this document.

[REDACTED]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this Document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since June 30, 2021, the end of the period reported on the Accountant’s Report included in Appendix I to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See “Business – Our Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED]), we estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED] after deducting the [REDACTED] and other estimated expenses in connection with the [REDACTED].

We intend to use the net [REDACTED] from the [REDACTED] for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- **approximately [REDACTED]%, or HK\$[REDACTED], will be used to invest in overseas expansion, our product offerings, user growth and new business initiatives to cultivate our social and entertainment ecosystem, including:**
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be used for pursuing overseas expansion opportunities, through (i) developing and localizing our technology support in emerging markets, promoting our platform and products in selected overseas markets (in addition to Middle East and Southeast Asia where we already have a presence) with large potential user bases and favorable competitive landscapes and user demographics, through sales and marketing activities, in order to further grow our international user base; and (ii) local business development, including strategic branding, establishing and investment in partnerships, as well as talent recruitment and training, which we believe will allow us to better understand local user needs and accumulate local operational expertise;
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be used to continue to diversify the features and functions on our *TT Chat* platform for game co-experiences, to enrich other topic categories such as music, movies and lifestyle, and to meet the needs of different demographic groups, such as female and Generation Z, in the next one to three years, through (i) developing tools to further facilitate user interactions on our *TT Chat* platform; as of the Latest Practicable Date, we had a number of new tools and features in our development and launch pipelines, such as new categories of virtual items and privileges and (ii) identifying unmet user interests and demand and promoting new audio entertainment categories or social features to address such user demand, such as features that allow users to explore shared interest in music, movies and other entertainment medium in more immersive settings;

FUTURE PLANS AND USE OF [REDACTED]

- o approximately [REDACTED]%, or HK\$[REDACTED], will be used to implement our marketing plans through online and offline channels and diversified promotional activities, as well as through sponsorship of professional esports leagues and tournaments, in order to promote our brand recognition, expand our user base and enhance user engagement, in the next one to three years; and
- o approximately [REDACTED]%, or HK\$[REDACTED], will be used to further invest in other new business initiatives to cultivate a rich and diversified social entertainment ecosystem around our *TT Chat* platform, including (i) rewarding users, guilds, hosts and social influencers to generate higher-quality contents (ii) strategically investing in partnerships with leading game developers of popular new mobile games, as well as (iii) continuing to expand our esports team operations to focus on the latest popular mobile games and to deepen our cooperation with reputable mobile esports industry partners in the areas of content offerings, user community and application of technologies.
- **approximately [REDACTED]%, or HK\$[REDACTED], will be used for research and development to improve our user experience and strengthen our commercialization capabilities, including:**
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be used to continue to establish and upgrade our technology and engineering middle platform and internal management tools to support our sustainable innovation and growing ecosystem in the long run;
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be used to continue to advance our user matching and content recommendation algorithms by investing in big data analytics and machine learning technologies, which we believe will continue to enable us to leverage the increasing volume of data generated on our *TT Chat* platform to again deeper insights into user preferences and improve the performance of our matching and recommendation functions; and
 - o approximately [REDACTED]%, or HK\$[REDACTED], will be used to continue to upgrade our audio technology infrastructure to enable high-quality connections with high transmission stability and low latency under different network environments.
- **approximately [REDACTED]%, or HK\$[REDACTED], will be used for general corporate purposes, including working capital needs.**

FUTURE PLANS AND USE OF [REDACTED]

If the [REDACTED] is fixed at the high-end or low-end of the [REDACTED] range (assuming the [REDACTED] is not exercised), the net [REDACTED] will increase or decrease by approximately HK\$[REDACTED] (after deducting [REDACTED] fees and expenses related to the [REDACTED]). We intend to apply the additional or reduced net [REDACTED] to the above uses on a pro rata basis.

If the [REDACTED] is exercised in full, we will receive additional [REDACTED] of approximately HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED] if the [REDACTED] is fixed at the high-end, mid-point and low-end of the [REDACTED] range, respectively. We intend to apply the additional net [REDACTED] to the above uses on a pro rata basis.

If the net [REDACTED] of the [REDACTED] are not immediately used for the purposes described above, to the extent permitted by the relevant laws and regulations, we intend to deposit the net [REDACTED] into short-term demand deposits with banks, as long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

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STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages I-[1] to I-[3], received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[DRAFT]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF QUWAN HOLDING LIMITED AND GOLDMAN SACHS (ASIA) L.L.C., CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND JEFFERIES HONG KONG LIMITED

Introduction

We report on the historical financial information of Quwan Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-[●] to I-[●], which comprises the consolidated balance sheets as at 31 December 2018, 2019 and 2020 and 30 June 2021, the company balance sheets as at 31 December 2019, 2020 and 30 June 2021, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-[●] to I-[●] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified

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ACCOUNTANT’S REPORT

Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 December 2019, 2020 and 30 June 2021 and the consolidated financial position of the Group as at 31 December 2018, 2019 and 2020 and 30 June 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and

APPENDIX I

ACCOUNTANT’S REPORT

applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-[●] have been made.

Dividends

We refer to Note 25 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period. No dividends have been paid by Quwan Holding Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[●]

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The financial statements of the Group for Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB (“Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

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ACCOUNTANT’S REPORT

**CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020 AND SIX MONTHS
ENDED JUNE 30, 2020 AND 2021**

		Year ended December 31,			Six months ended	
	Notes	2018	2019	2020	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenues	6	432,866	836,327	1,493,420	602,010	1,173,466
Cost of revenues	8	(124,466)	(308,430)	(522,201)	(197,394)	(482,478)
Gross profit		308,400	527,897	971,219	404,616	690,988
Selling and marketing expenses	8	(164,257)	(269,144)	(600,361)	(240,645)	(531,545)
Administrative expenses	8	(84,504)	(46,437)	(215,845)	(58,577)	(307,905)
Research and development expenses	8	(44,074)	(88,156)	(143,403)	(60,365)	(125,721)
Net impairment losses on financial assets	8	(2,040)	(3,944)	(6,587)	(6,258)	(4,027)
Other (losses)/gains, net	7	(900)	9,087	13,099	(398)	14,497
Operating profit/(loss)		12,625	129,303	18,122	38,373	(263,713)
Finance income	10	1,068	2,114	8,520	2,665	3,580
Finance costs	10	(777)	(883)	(4,217)	(1,421)	(2,446)
Finance income, net		291	1,231	4,303	1,244	1,134
Share of net (loss)/profit of associates accounted for using equity method	11	(482)	(942)	(831)	27	(1,219)
Fair value changes on convertible redeemable preferred shares	32	–	–	(53,075)	–	(394,756)
Fair value changes on convertible preferred shares	33	–	–	(109,649)	–	(324,577)
Profit/(Loss) before income tax		12,434	129,592	(141,130)	39,644	(983,131)
Income tax credit/(expenses)	12	947	1,288	(12,879)	(10,184)	(5,517)
Profit/(Loss) for the year/period		<u>13,381</u>	<u>130,880</u>	<u>(154,009)</u>	<u>29,460</u>	<u>(988,648)</u>
Profit/(Loss) for the year/period attributable to:						
– Owners of the Company		13,381	130,880	(152,247)	29,639	(981,464)
– Non-controlling interests	24	–	–	(1,762)	(179)	(7,184)
		<u>13,381</u>	<u>130,880</u>	<u>(154,009)</u>	<u>29,460</u>	<u>(988,648)</u>
Earnings/(Loss) per share for the profit/(loss) attributable to the owners of the Company	13					
Basic (RMB yuan)		<u>0.18</u>	<u>1.73</u>	<u>(2.00)</u>	<u>0.39</u>	<u>(14.34)</u>
Diluted (RMB yuan)		<u>0.18</u>	<u>1.72</u>	<u>(2.00)</u>	<u>0.39</u>	<u>(14.34)</u>

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020 AND SIX MONTHS
ENDED JUNE 30, 2020 AND 2021**

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30, 2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Profit/(Loss) for the year/period	13,381	130,880	(154,009)	29,460	(988,648)
Other comprehensive income/(loss)					
<i>Items that may be reclassified to profit or loss</i>					
Currency translation differences	–	–	111	(2)	(1,039)
<i>Items that will not be reclassified to profit or loss</i>					
Changes in the fair value attributable to own credit risk	–	–	3,649	(158)	(5,407)
Currency translation differences	–	–	8,603	(151)	(18,580)
	<u>–</u>	<u>–</u>	<u>8,603</u>	<u>(151)</u>	<u>(18,580)</u>
Other comprehensive income/(loss) for the year/period, net of taxes	<u>–</u>	<u>–</u>	<u>12,363</u>	<u>(311)</u>	<u>(25,026)</u>
Total comprehensive income/(loss) for the year/period attributable to:					
– Owners of the Company	13,381	130,880	(139,884)	29,328	(1,006,375)
– Non-controlling interests	–	–	(1,762)	(179)	(7,299)
	<u>–</u>	<u>–</u>	<u>(1,762)</u>	<u>(179)</u>	<u>(7,299)</u>

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ACCOUNTANT’S REPORT

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2018, 2019 AND 2020 AND JUNE 30, 2021

		As of December 31,			As of
	Notes	2018	2019	2020	June 30,
		RMB'000	RMB'000	RMB'000	2021
					RMB'000
Assets					
Non-current assets					
Property and equipment	14	42,405	25,626	32,041	36,590
Investment properties	16	–	14,620	15,300	16,080
Right-of-use assets	15	22,685	24,734	18,489	137,957
Intangible assets	17	7,346	49,795	243,376	302,743
Financial assets at fair value					
through profit or loss	18(b)	1,809	2,074	6,136	5,857
Prepayments	20	–	5,300	8,043	1,000
Amounts due from related parties	37(c)	–	–	89,717	–
Investments in associates	11	6,745	5,056	8,724	53,658
Deferred tax assets	30	1,287	2,575	4,224	5,074
		<u>82,277</u>	<u>129,780</u>	<u>426,050</u>	<u>558,959</u>
Current assets					
Trade receivables	19	41,399	35,176	46,797	38,245
Prepayments and other current assets	20	42,684	61,302	79,732	93,597
Amounts due from related parties	37(c)	53,030	104,065	182,430	–
Financial assets at fair value					
through profit or loss	18(b)	22,000	73,000	–	760
Restricted cash	21(b)	–	–	–	2,452
Cash and cash equivalents	21(a)	41,162	78,310	629,319	794,829
		<u>200,275</u>	<u>351,853</u>	<u>938,278</u>	<u>929,883</u>
Total assets		<u><u>282,552</u></u>	<u><u>481,633</u></u>	<u><u>1,364,328</u></u>	<u><u>1,488,842</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

		As of December 31,			As of
	<i>Notes</i>	2018	2019	2020	June 30,
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	2021
					<i>RMB’000</i>
Equity/(deficit) and liabilities					
Equity/(deficit) attributable to equity holders of the Company					
Share capital	22	–	–	47	47
Other reserves	23	179,914	196,065	36,620	195,811
Accumulated losses		<u>(71,533)</u>	<u>(17,825)</u>	<u>(283,059)</u>	<u>(1,493,800)</u>
		108,381	178,240	(246,392)	(1,297,942)
Non-controlling interests		<u>–</u>	<u>2,485</u>	<u>723</u>	<u>(2,733)</u>
Total equity/(deficit)		<u><u>108,381</u></u>	<u><u>180,725</u></u>	<u><u>(245,669)</u></u>	<u><u>(1,300,675)</u></u>
Liabilities					
Non-current liabilities					
Lease liabilities	15	21,052	19,913	13,145	114,608
Deferred tax liabilities	30	–	–	–	5,480
Convertible redeemable preferred shares	32	–	–	746,193	1,565,565
Convertible preferred shares	33	<u>–</u>	<u>–</u>	<u>314,726</u>	<u>642,149</u>
		<u>21,052</u>	<u>19,913</u>	<u>1,074,064</u>	<u>2,327,802</u>
Current liabilities					
Borrowings	28	–	–	126,500	–
Amount due to related parties	37	–	69,360	35,234	–
Accounts payable	27	114,021	112,964	116,543	144,910
Other payables and accruals	27	27,206	75,963	184,920	218,608
Contract liabilities	29	8,512	15,772	57,957	69,446
Income tax payable		–	–	6,731	2,843
Lease liabilities	15	<u>3,380</u>	<u>6,936</u>	<u>8,048</u>	<u>25,908</u>
		<u>153,119</u>	<u>280,995</u>	<u>535,933</u>	<u>461,715</u>
Total liabilities		<u><u>174,171</u></u>	<u><u>300,908</u></u>	<u><u>1,609,997</u></u>	<u><u>2,789,517</u></u>
Total equity/(deficit) and liabilities		<u><u>282,552</u></u>	<u><u>481,633</u></u>	<u><u>1,364,328</u></u>	<u><u>1,488,842</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

COMPANY BALANCE SHEETS
AS AT DECEMBER 31, 2018, 2019 AND 2020 AND JUNE 30, 2021

	<i>Notes</i>	As of December 31, 2019	2020	As of June 30, 2021
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Assets				
Non-current assets				
Investments in subsidiaries		–	1,258,656	1,419,521
		–	1,258,656	1,419,521
Current assets				
Prepayments and other current assets		–	7	3,322
Amounts due from related parties	37(c)	–	302,010	500,916
Cash and cash equivalents	21	–	339,122	347,653
		–	641,139	851,891
Total assets		–	1,899,795	2,271,412
Equity and liabilities				
Equity attributable to equity holders of the Company				
Share capital	22	–*	47	47
Other reserves	23	–	955,526	975,688
Accumulated losses		–	(162,371)	(919,802)
Total equity		–	793,202	55,933
Liabilities				
Non-current liabilities				
Convertible redeemable preferred shares	32	–	746,193	1,565,565
Convertible preferred shares	33	–	314,726	642,149
		–	1,060,919	2,207,714
Current liabilities				
Other payables and accruals	27	–	10,440	7,765
Amount due to related parties	37(c)	–	35,234	–
		–	45,674	7,765
Total liabilities		–	1,106,593	2,215,479
Total equity and liabilities		–	1,899,795	2,271,412

* represents amount less than RMB1,000.

APPENDIX I

ACCOUNTANT’S REPORT

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020 AND SIX MONTHS
ENDED JUNE 30, 2020 AND 2021**

	<i>Notes</i>	Attributable to owners of the Company			Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
		Share capital	Other reserves	Accumulated losses			
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>			
Balance at January 1, 2018		–	140,575	(84,914)	55,661	–	55,661
Comprehensive income							
Profit for the year		–	–	13,381	13,381	–	13,381
Transactions with owners in their capacity as owners							
Share-based compensation	26	–	39,339	–	39,339	–	39,339
Balance at December 31, 2018		–	179,914	(71,533)	108,381	–	108,381
Balance at January 1, 2019		–	179,914	(71,533)	108,381	–	108,381
Comprehensive income							
Profit for the year		–	–	130,880	130,880	–	130,880
Transactions with owners in their capacity as owners							
Share-based compensation	26	–	10,824	–	10,824	–	10,824
Appropriations to statutory reserves	23	–	5,327	(5,327)	–	–	–
Dividend declared	25	–	–	(69,360)	(69,360)	–	(69,360)
Transaction with non-controlling interests	26(b)	–	–	(2,485)	(2,485)	2,485	–
Balance at December 31, 2019		–	196,065	(17,825)	178,240	2,485	180,725

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	Notes	Attributable to owners of the Company			Total	Non-controlling interests	Total equity
		Share capital	Other reserves	Accumulated losses			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2020		–	196,065	(17,825)	178,240	2,485	180,725
Comprehensive loss/(income)							
Loss for the year		–	–	(152,247)	(152,247)	(1,762)	(154,009)
Fair value change on convertible redeemable preferred shares due to own credit risk	23	–	3,649	–	3,649	–	3,649
Currency translation differences	23	–	8,714	–	8,714	–	8,714
Transactions with owners in their capacity as owners							
Issuance of ordinary shares	22	47	–	–	47	–	47
Re-designation of ordinary shares to series Angel preferred shares	22	–	(198,591)	–	(198,591)	–	(198,591)
Repurchase of ordinary shares	22	–	(104,398)	–	(104,398)	–	(104,398)
Share-based compensation	26	–	95,829	–	95,829	–	95,829
Dividend declared	25	–	34,365	(112,000)	(77,635)	–	(77,635)
Appropriations to statutory reserves	23	–	987	(987)	–	–	–
Balance at December 31, 2020		<u>47</u>	<u>36,620</u>	<u>(283,059)</u>	<u>(246,392)</u>	<u>723</u>	<u>(245,669)</u>

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	Attributable to owners of the Company				Non- controlling	Total
	Share capital	Other reserves	Accumulated losses	Total	interests	equity
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)						
Balance at January 1, 2020	–	196,065	(17,825)	178,240	2,485	180,725
Comprehensive loss/(income)						
Profit for the period	–	–	29,639	29,639	(179)	29,460
Fair value change on convertible note due to own credit risk	–	(158)	–	(158)	–	(158)
Currency translation differences	23	(153)	–	(153)	–	(153)
Transactions with owners in their capacity as owners						
Share-based compensation	26	36,325	–	36,325	–	36,325
Balance at June 30, 2020	<u>–</u>	<u>232,079</u>	<u>11,814</u>	<u>243,893</u>	<u>2,306</u>	<u>246,199</u>

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	Notes	Attributable to owners of the Company			Total	Non-controlling interests	Total equity
		Share capital	Other reserves	Accumulated losses			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2021		47	36,620	(283,059)	(246,392)	723	(245,669)
Comprehensive loss/(income)							
Loss for the period		–	–	(981,464)	(981,464)	(7,184)	(988,648)
Fair value change on convertible redeemable preferred shares due to own credit risk	23	–	(5,407)	–	(5,407)	–	(5,407)
Currency translation differences	23	–	(19,504)	–	(19,504)	(115)	(19,619)
Transactions with owners in their capacity as owners							
Share-based							
compensation	26	–	65,648	–	65,648	–	65,648
Dividend declared	25	–	138,546	(230,000)	(91,454)	–	(91,454)
Issuance of ordinary shares in relation to acquisition of subsidiaries	22	2	49,864	–	49,866	–	49,866
Repurchase of ordinary shares	22	–	(19,929)	–	(19,929)	–	(19,929)
Re-designation of ordinary shares to series C preferred shares	22	(2)	(51,549)	–	(51,551)	–	(51,551)
Contribution from non-controlling interests		–	1,522	–	1,522	4,566	6,088
Acquisition of non-controlling interests	24	–	–	723	723	(723)	–
Balance at June 30, 2021		<u>47</u>	<u>195,811</u>	<u>(1,493,800)</u>	<u>(1,297,942)</u>	<u>(2,733)</u>	<u>(1,300,675)</u>

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**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2019 AND 2020 AND SIX MONTHS
ENDED JUNE 30, 2020 AND 2021**

		Year ended December 31,			Six months ended	
	Note	2018	2019	2020	June 30,	2021
		RMB'000	RMB'000	RMB'000	2020	2021
					RMB'000	RMB'000
					<i>(Unaudited)</i>	
Cash flows from operating activities						
Cash generated from/(used in)						
operations	35(a)	100,323	197,344	265,892	142,936	(32,367)
Income tax paid		—	—	(7,796)	(438)	(10,480)
Net cash generated from/(used in)						
operating activities						
		<u>100,323</u>	<u>197,344</u>	<u>258,096</u>	<u>142,498</u>	<u>(42,847)</u>
Cash flows from investing activities						
Purchase of property and equipment		(42,150)	(4,281)	(10,864)	(2,634)	(8,204)
Purchase of intangible assets	35(b)	(4,813)	(5,648)	(25,606)	(7,681)	(12,468)
Payment for purchase of e-Sports licenses and contracts	35(b)	—	(26,173)	(161,283)	(27,321)	(40,000)
Proceeds from disposal of property, equipment and intangible assets	35(c)	2	2,021	2,273	769	6,878
Purchase of investments in non-current financial assets at fair value through profit or loss		—	—	(3,000)	—	—
Proceeds from disposal of non-current financial assets at fair value through profit or loss		—	500	2,020	—	—
Purchase of investments in associates		(500)	—	(5,000)	(5,000)	(30,000)
Purchase of investments in current financial assets at fair value through profit or loss		(22,000)	(449,000)	(60,000)	(60,000)	—
Proceeds from disposal of investments in current financial assets at fair value through profit or loss		—	399,309	123,211	123,211	—
Loan to related parties	37(c)	(33,000)	(71,400)	(284,040)	(180,748)	—
Proceeds from loan to related parties		—	—	104,400	—	284,040
Interest income received		366	348	1,355	459	1,019
Consideration paid for business combination, net of cash acquired	34	—	—	—	—	(1,591)
Net cash (used in)/generated from						
investing activities						
		<u>(102,095)</u>	<u>(154,324)</u>	<u>(316,534)</u>	<u>(158,945)</u>	<u>199,674</u>

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	<i>Note</i>	Year ended December 31,			Six months ended	
		2018	2019	2020	June 30, 2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
Cash flows from financing activities						
Proceeds from issuance of convertible redeemable preferred shares	35(e)	–	–	522,449	–	290,703
Proceeds from issuance of convertible notes	31	–	–	176,988	176,988	–
Proceeds from borrowings		–	–	126,500	80,000	–
Repayment of borrowings		–	–	–	–	(126,500)
Principal elements of lease liabilities		(2,255)	(4,989)	(6,719)	(2,750)	(7,415)
Repayment of interest on lease liabilities		(777)	(883)	(984)	(516)	(938)
Proceeds in issuance of ordinary shares		–	–	47	–	–
Proceeds in issuance of Series Angel Preferred Shares		–	–	12	–	6
Payment of repurchase of ordinary shares	35(d)	–	–	(58,726)	–	(55,163)
Contribution from non-controlling interests		–	–	–	–	6,088
Dividend paid		–	–	(146,995)	(69,360)	(91,454)
Finance costs paid		–	–	(3,233)	(905)	(1,508)
Net cash (used in)/generated from financing activities		<u>(3,032)</u>	<u>(5,872)</u>	<u>609,339</u>	<u>183,457</u>	<u>13,819</u>
Net (decrease)/increase in cash and cash equivalents		<u>(4,804)</u>	<u>37,148</u>	<u>550,901</u>	<u>167,010</u>	<u>170,646</u>
Cash and cash equivalents at the beginning of year/period	21(a)	45,966	41,162	78,310	78,310	629,319
Effects of exchange rate changes on cash and cash equivalents		–	–	108	(13)	(5,136)
Cash and cash equivalents at the end of the year/period	21(a)	<u>41,162</u>	<u>78,310</u>	<u>629,319</u>	<u>245,307</u>	<u>794,829</u>

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

Quwan Holding Limited (“Quwan” or the “Company”) was incorporated under the laws of the Cayman Islands in May 29, 2019, as an exempted company with limited liability. The registered office is in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including structured entities (collectively, the “Group”), engage in value-added telecommunication services, gaming distribution and esports operation business. During the Track Record Period, its primary operations are conducted in the People’s Republic of China (“PRC”).

1.2 History and reorganisation of the Group

The Group commenced its operation through Guangzhou Quwan Network Technology Co., Ltd (“Guangzhou Quwan”) since 2014. Guangzhou Quwan was founded by Mr. Song Ke, Mr. Guangyao Chen, Mr. Zhizhao Qiu, Mr. Teng Yu and Mr. Yang Zhou (collectively the “Founders”), and subsequently obtained financing from various third party investors (collectively “Third Party Investors”) from 2016 through 2020. To facilitate offshore financing transaction and in preparation for its [REDACTED], the Group completed a reorganisation (the “Reorganisation”) in November 2020, which involved the following steps:

- On May 29, 2019, the Company was established under the laws of the Cayman Islands as an exempted company with limited liability.
- On June 13, 2019, Quwan (HK) Limited (“Quwan HK”) was incorporated in Hong Kong as a wholly owned subsidiary of the Company.
- On July 12, 2019, Zhuhai Huanquhui Network Technology Co., Ltd. (“WFOE”) was established as a wholly foreign-owned enterprise of Quwan HK in the PRC.
- On April 28, 2020, Quyun Technology Singapore Pte. Ltd. (“Quyun”) was incorporated in Singapore as a wholly owned subsidiary of the Company.
- On July 14, 2020, Qu Yue Technology Pte. Ltd (“Quyue”) was incorporated in Singapore as a wholly owned subsidiary of Quyun.
- On October 25, 2020, Republic of Gamers Network Technology Ltd. (“Republic of Gamers”) was incorporated in United Arab Emirates as a 70% owned subsidiary of Quyun.
- On November 11, 2020, the Company issued 55,243,376 ordinary shares and 17,723,079 Series Angel Preferred Shares to entities controlled by the existing shareholders of Guangzhou Quwan based on their respective equity interests in Guangzhou Quwan.
- On November 11, 2020, the Company also committed to issue and allot 7,059,249 ordinary shares and 10,440,854 Series Angel Preferred Shares to entities controlled by the existing shareholders of Guangzhou Quwan based on their respective equity interest in Guangzhou Quwan. These part of ordinary shares and Series Angel Preferred Shares were subsequently allotted on December 20, 2020 and March 19, 2021, respectively, after the completion of statutory filing and foreign exchange registration for outbound investment, respectively.

As part of the Reorganisation in November 2020, a series of contractual agreements (the “Contractual Agreements”) were entered into among the WFOE, Guangzhou Quwan and its existing shareholders. Consequently, the WFOE became the primary beneficiary of Guangzhou Quwan, and Guangzhou Quwan and its subsidiaries became structured entities which are controlled by the Company.

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Upon completion of the Reorganisation on November 11, 2020, the Company became the holding company of the other companies comprising the Group.

The Company’s principal subsidiaries (including controlled and structured entities) during the Track Record Period are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/paid-in capital	Effective interest held				Principal activities
				As of December 31,		As of		
				2018	2019	2020	June 30, 2021	
Subsidiaries								
Directly held:								
Quwan (HK) Limited (Note v)	Hong Kong, limited liability company	June 13, 2019	HKD1	-	100%	100%	100%	Investment holding
Indirectly held:								
Republic of Gamers Network Technology Ltd (Note iii)	UAE, limited liability company	October 25, 2020	RMB15,000,000	-	-	70%	70%	Operation of interactive online platform
Zhuhai Huanqihui Network Technology Co., Ltd (Note iv)	China, limited liability company	July 12, 2019	RMB40,000,000	-	100%	100%	100%	Investment holding company
Structured entities (Note i)								
Guangzhou Quwan Network Technology Co., Ltd (Note iv)	China, limited liability company	December 13, 2014	RMB10,653,933	100%	100%	100%	100%	Operation of interactive online platform and online games publishing
Guangzhou Shabake Network Technology Co., Ltd (Note iv)	China, limited liability company	October 21, 2015	RMB10,000,000	100%	100%	100%	100%	Operation of interactive online platform and online games publishing
Guangzhou Qujing Culture Media Ltd (“Guangzhou Quijin”) (Note iv)	China, limited liability company	November 21, 2019	RMB52,626,039	-	95.01%	95.01%	100%	Operation of e-Sports game team
Xiamen Saimalei Technology Co., Ltd (Note iv)	China, limited liability company	September 11, 2017	RMB13,800,000	-	95.01%	95.01%	100%	Operation of e-Sports game team
Guangzhou Jingwan Cultural Media Co., Ltd (Note iv)	China, limited liability company	May 29, 2020	RMB170,000,000	-	-	95.01%	100%	Operation of e-Sports game team
Shanghai Chenlong Information Technology Co., Ltd (Note iv)	China, limited liability company	April 2, 2020	RMB10,000,000	-	-	-	100%	Provision of audio-streaming and online marketing services

Notes:

- (i) As described in Note 2.2, the Company does not have direct or indirect legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with these structured entities and their registered owners, the Company and its other legally owned subsidiaries have rights to exercise power over these structured entities, receive variable returns from its involvement in these structured entities, and have the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.
- (ii) All companies comprising the Group have adopted 31 December as their financial year end date.
- (iii) No statutory audited financial statements were issued for these companies as there is no statutory requirement in their respective places of incorporation.
- (iv) The PRC statutory financial statements of these companies for the years ended 31 December 2018, 2019 and 2020 were audited by Zhihua Certified Public Accountant Limited Company.
- (v) The auditor for 2019 was Sammy Y.S. Liu & Co. and a statutory audited financial statement has been issued for 2019, and the statutory financial statement for 2020 has yet to be issued.

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1.3 Basis of presentation

Prior to the Reorganisation, the shareholders of Guangzhou Quwan included individual shareholders and limited partnerships. Pursuant to laws applicable to PRC residents and entities incorporated in the PRC, PRC individuals should complete registration of its outbound investments (i.e. the foreign exchange registration under SAFE Circular 37), and PRC institutional investors should complete its statutory filings and foreign exchange registrations for outbound investment (i.e. ODI) respectively, before such PRC residents or entities’ can legally own offshore investments or equity interests in offshore entities. As such, all PRC individual shareholders of Guangzhou Quwan shall complete their relevant registrations and/or statutory filings, as appropriate, before they can, in accordance with applicable PRC laws, hold directly or indirectly the ordinary shares of the Company, which is incorporated under the laws of the Cayman Islands. (see Note 22).

The shareholdings in Guangzhou Quwan and the Company were with a high degree of common ownership immediately before and after the Reorganisation where Mr. Song Ke had controlling ownership. The Company, being the holding company after the Reorganisation, is a newly established shell company. These transactions did not cause a change in control of the Company before and after the Reorganisation and therefore the Reorganisation was accounted for as a recapitalization and regarded as continuation of the business without any changes in business substances, nor in any management or the ultimate controlling party of Group. For the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of business with the assets and liabilities of the Group recognised and measured at the carrying amounts prior to the Reorganization. For the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis.

Contractual Arrangements were also executed for operating companies in the PRC established by the Group. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies applied in the preparation of the Historical Financial Information. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

a) *Compliance of IFRS*

The Historical Financial Information have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”).

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

b) *Historical cost convention*

The Historical Financial Information have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value.

c) *Going concern*

During the six months ended 30 June 2021, the Group reported a net loss of approximately RMB988,648,000 and a net operating cash outflow of approximately RMB42,847,000. Besides, as at 30 June 2021, the Group sustained a net liability position of approximately RMB1,300,675,000.

The Group’s source of finance and working capital mainly derived from the Company’s convertible and redeemable preferred shares (“CRPS”), which are classified as financial liabilities. And the CRPS are not redeemable at the option of the holders within twelve months from 30 June 2021 (Note 32).

Management of the Group has prepared a cash flow projection covering a period of not less than 12 months from 30 June 2021. Based on the projection prepared by management, the directors of the Company believe that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the twelve months from 30 June 2021. Consequently, the Historical Financial Information has been prepared on a going concern basis.

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d) New and amended standards adopted by the Group

The IASB has issued a number of new and amended IFRSs. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and amended IFRSs consistently throughout the Track Record Period except for any new or interpretation that are not yet effective.

IFRS 9, “Financial instruments” and IFRS 15, “Revenue from contracts with customers” are effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRS 16, “Leases” is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. The Group has adopted IFRS 9, IFRS 15 and IFRS 16 consistently throughout the Track Record Period.

e) New standards and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations have been issued but are not yet effective and have not been early adopted by the Group during the Track Record Period. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments	Effective for annual years beginning on or after
Amendments to IFRS 16, COVID-19 Related Rent Concessions Amendment	April 1, 2021
Amendments to IAS 1, Presentation of financial statements on classification of liabilities	January 1, 2022
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	January 1, 2022
Amendments to IAS 1, Classification of liabilities as current or non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practise Statement 2, Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8, Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single transaction	January 1, 2023
IFRS 17, Insurance Contracts	January 1, 2023
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture	To be announced by IASB

2.2 Principles of consolidation and equity accounting

a) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 34).

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

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

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b) Associates

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

c) Equity method

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

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

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

The carrying amounts of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.9.

2.2.1 Subsidiaries controlled through Contractual Arrangements

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its website and other restricted businesses in the PRC through certain PRC operating entities, whose equity interests are held by certain management members of the Group (“Nominee Shareholders”). The Group signed Contractual Arrangements with the PRC operating entity and its subsidiaries. The Contractual Arrangements include exclusive technical consultation and service agreements, exclusive option agreements, equity pledge agreements and powers of attorney, which enable the Group to:

- govern the financial and operating policies of the PRC operating entities;
- exercise equity holder voting rights of the PRC operating entities;
- receive substantially all of the economic interest returns generated by the PRC operating entities in consideration for the technical support, consulting and other services provided exclusively by the WFOE, at the WFOE’s discretion;
- obtain an irrevocable and exclusive right to purchase part or all of the equity interests in the PRC operating entities at any time and from time to time, at the minimum consideration permitted by the relevant law in China at the time of transfer; and
- obtain a pledge over all of its equity interests from its respective nominee shareholders as collateral for all of the PRC entities’ payments due to the Group to secure performance of entities’ obligation under the Contractual Arrangements.

Accordingly, the Group has rights to control these entities. As a result, they are presented as entities controlled by the Group.

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2.2.2 Business combination

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gain or loss arising from such remeasurement is recognised in profit or loss.

2.3 Company's separate financial statements

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

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

2.4 Segment reporting

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

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2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company and certain of its overseas subsidiaries is US\$. The Company’s primary subsidiaries and structured entities are incorporated in the PRC and for these subsidiaries and structured entities, RMB is the functional currency. The Group’s presentation currency is RMB.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements on a net basis within “other gains/(losses), net”.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gains or losses. For example, translation differences on non-monetary assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in consolidated income statements as part of the “other gains/(losses), net”.

(c) *Group companies*

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

Buildings	30 years
Servers, computers and electronic equipment	5 years
Office and transportation equipment	4-5 years
Leasehold improvements	shorter of lease term or 5 years

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

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

Construction in progress represent buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intends to hold for production purposes. Construction in progress is carried at costs which include development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, constructions in progress are transferred to other property, plant and equipment at cost less accumulated impairment losses.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “other gains/(losses), net” in the consolidated income statements.

2.7 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss as part of the “other gains/(losses), net”.

On the transfer of self-occupied property to investment property, increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserve in shareholders’ equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to the consolidated income statement.

2.8 Intangible assets

(a) Goodwill

Goodwill is measured as described in note 2.2.2. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”), or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the sale value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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(b) Trademarks and domain names, online game licenses, computer software and systems

Separately acquired domain names, trademarks, internet audio/video program transmission licenses, operating licenses and copyrights are initially recognised and measured at historical cost. The assets acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortization and impairment losses (if any).

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For details, refer to Note 2.8(d).

(c) Other intangible assets

Other intangible assets mainly include customer relationships and non-compete agreements. They are initially recognised and measured at estimated fair value of intangible assets acquired through business combinations.

(d) Research and development

Research expenditures are recognised as an expense as incurred. Costs incurred on development projects are capitalized as intangible assets when recognition criteria are met, including (a) it is technically feasible to complete the software so that it will be available for use; (b) management intends to complete the software and use or sell it; (c) there is an ability to use or sell the software; (d) it can be demonstrated how the software will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use or sell the software are available; and (f) the expenditure attributable to the software during its development can be reliably measured. Other development costs that do not meet those criteria are expensed as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

There were no development costs meeting these criteria and capitalized as intangible assets as of December 31, 2018, 2019 and 2020 and June 30, 2021.

(e) Amortisation methods and periods

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

Acquired Technology	7 years
Acquired Brand name	5 years
Computer software and systems	1-10 years
Domain names	10 years
E-Sports player's rights	3 years
E-Sports licenses and contracts	10 years
Online game licenses	2-5 years
Trademarks	10 years

2.9 Impairment of non-financial assets

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

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2.10 Investments and other financial assets

(a) *Classification*

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

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

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

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

See Note 18 for details of each type of financial assets.

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

(b) *Recognition and derecognition*

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

(c) *Measurement*

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

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

Debt instruments

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

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

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- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), net and impairment expenses are presented as separate line item in the income statements.
- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses), net in the period in which it arises.

Equity instruments

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

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

The Group subsequently measures all equity investments at fair value. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses), net in the consolidated income statements as applicable.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 19 for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Derivatives

Derivatives, do not qualify for hedge accounting, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

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2.13 Trade receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortized cost using the effective interest method, less loss allowance. See Note 19 for further information about the Group’s accounting for trade receivables, Note 20 for further information about other receivables and Note 2.10(d) for a description of the Group’s impairment policies.

2.14 Cash and cash equivalents and restricted cash

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, short-term deposits with maturities of three months or less and cash held at third party payment platform that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash that is restricted from withdrawal, from use or from being pledged as security is reported separately on the face of the consolidated balance sheets, and is not included in the total cash and cash equivalents in the consolidated statements of cash flows.

2.15 Share capital

Ordinary shares and non-redeemable participating preferred shares are classified as equity (Note 22). Convertible redeemable preferred shares and convertible preferred shares are classified as financial liabilities, see Note 2.17 and Note 3.3.

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

Where any Group purchases the Company’s equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

2.16 Accounts and other payables

Accounts and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Accounts and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Convertible redeemable preferred shares

Convertible redeemable preferred shares issued by the Company are redeemable at the option of the holder any time after a certain date and were contingently redeemable the upon occurrence of certain redemption events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of a qualified [REDACTED] (“Q[REDACTED]”) of the Company. For details, refer to Note 32.

The Group designated the convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss. Fair value changes relating to market risk are recognised in profit or loss, and the component of fair value changes relating to the Company’s own credit risk is recognised in OCI. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to accumulated losses when realized.

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

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2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

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

2.19 Current and deferred income tax

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

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

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

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

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

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

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

Current and deferred tax are recognised in profit or loss, except to the extent that they relate to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity.

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2.20 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees’ services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations, which are included in other payables and accruals in the consolidated balance sheets.

(b) Pension obligations

Employees in the Group’s PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group’s PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company’s shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.21 Share-based compensation

Share-based compensation arises from share options for the purchase of ordinary shares granted by the Group to its management and other key employees and repurchases of ordinary shares from management.

Employee options

The Group operates the 2015 PRC Incentive Plan (“the 2015 PRC Plan”) and the 2020 Global Employee Incentive Plan (“the 2020 Plan”), under which it receives services from employee in exchange for equity instruments of the Company.

The fair value of options granted under the 2015 PRC Plan and the 2020 Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions,
- excluding the impact of any service and non-market performance vesting conditions, and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.22 Revenue recognition

The Group derives revenue from (i) operating interactive online platforms which primarily consists of (a) value added services and (b) audio entertainment, and (ii) offering virtual items in online games and other related revenue. The Group adopted IFRS 15, “Revenue from Contracts with Customers” for all periods presented. Consistent with the criteria of IFRS 15, the Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to receive in exchange for those goods or services using the five steps defined under IFRS 15.

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2.22.1 *The accounting policy for the Group’s principal revenue sources*

(a) *Interactive online platform*

The Group is principally engaged in operating an interactive online platform which enables hosts and users or users to users to interact with each other real time through various experiences. These experiences primarily consists of: (a) providing value added services where the content to be delivered through these experiences is either controlled by the Group or the users (“Value Added Services”) and (b) engaging hosts to provide audio entertainment (“Audio Entertainment”). Through the provision of the interactive online platform enabling participants to interact with each other, the Group monetizes such experiences through the sales of virtual items on the platform as participants would purchase and present these virtual items to each other to show their appreciations. The Group has a recharge system for users to purchase the Group’s virtual currency (e.g. “TT beans”) then purchase virtual items for use. Users can recharge via bank transfer and various online third-party payment platforms, including AliPay, WeChat Pay and other payment platforms. Virtual currency is non-refundable and without expiry. Virtual currencies used to purchase virtual items are recognized as revenue according to the prescribed revenue recognition policies addressed below unless otherwise stated.

The virtual currency often consumed soon after it is purchased based on history of turnover of the virtual currency. Furthermore, upon receipt of gifting, the virtual gifts received would convert into virtual tokens (e.g. “TT points”) which can either be converted back into virtual currency or cash at the discretion of the users and are recorded as accounts payable. Unconsumed virtual currency are recorded as contract liabilities which is further discussed in the subsequent section “Contract balances”.

Consumable virtual items are categorized as consumable and are consumed upon purchase. Users purchase consumable and present these virtual items to hosts or other users to show their appreciation and demonstrate their enjoyment of experiences received on the platform. Once the gifting of virtual items has occurred, the users have acknowledged that they have received/enjoyed the entertainment experiences on the platform such that the Group no longer has any further obligations towards the users. The Group does not have further performance obligations to the user after the virtual items are consumed immediately. Time-based items could be used for a fixed period of time such as a virtual special symbol that can be purchased and displayed on the users’ profile over a short fixed period of time; Users can purchase either consumable or time-based items and present these virtual items to hosts to show support for their favorite hosts or purchase time-based virtual items that enhance the users’ personal profile. Time based virtual items are typically consumed within one to two months for the periods presented.

As the Group’s virtual items are generally sold without right of return and the Group does not provide any other credit and incentive to its users, accounting of variable consideration when estimating the amount of revenue to recognize is not applicable to the Group’s Value Added Services and Audio Entertainment. As the virtual currency is often consumed soon after it is purchased based on history of turnover of the virtual currency, the Group considers it does not expect to be entitled to a breakage amount for the virtual currency.

(a.i) Value added services

The Group involves hosts and users to provide Value Added Services through the following channels:

(a.i.1) Content controlled by the Group

For certain chatrooms within the interactive online platform which the content is controlled by the Group, the Group involves an approved guild (“Guild”) where each Guild would be operated by a representative (“Representative”) and users enrolled in the Guild to provide Value Added Services. Representative of the Guild must be contracted by the Group in order to provide Value Added Services to other users on the platform. The Group shares a portion of the proceeds of virtual items (“revenue sharing fee”) with the recipients and their respective Guilds in accordance with agreements. The Group views users to be its customers. The Group evaluates and determines that it is the principal when delivering Value Added Services and reports the corresponding revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues. However, given the nature of these experiences, where users present virtual items to other users, the revenue sharing fee paid to the recipients would be recorded as reduction of revenues.

Where the Group is the principal, it controls the content to be delivered within the Value Added Services before they are transferred to users. The content controlled by the Group may encompass graphics being used, sound and visual effects being displayed, background music being played, topics being discussed,

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games being played or natures of the content (e.g. games, music, anime, comic, novel, emotional counseling, storytelling, online dating, online karaoke and talk shows). Its control is evidenced by the Group oversees the content to be distributed throughout these Value Added Services. For Value Added Services on the platform, the content to be delivered is required to be pre-approved by the Group. Furthermore, during the delivery of the content, the Group would exercise on-going monitoring and if there is any deviation from the pre-approved content during the delivery, the Group would penalize the Representatives and users from temporary suspension to permanent removal from the platform. In addition, the Group has the sole ability to monetize the virtual items before they are transferred to users, and is further supported by the Group being primarily responsible to users and having a level of discretion in establishing pricing. The Group designs, creates and offers various virtual items for sale to users with pre-determined stand-alone selling prices. Virtual items are categorized as consumable and time-based items.

(a.i.2) Content controlled by the users

For chat rooms which content is not controlled by the Group, the control over the content to be distributed in certain experiences are exercised by the users. These chat rooms are not operated by Guilds and Representatives and the Group does not have any process in place to review the content to be delivered. The Group would only exercise on-going monitoring to ensure the content being distributed are not in any violation of the rules and regulations established by the Group and in the PRC. Therefore, the Group does not exercise any control over the topics being discussed, games being played or nature of the content in these experiences. In these instances, the Group evaluates and determines that it is the agent and reports the corresponding revenues on a net basis. Accordingly, the Group records the net amounts billed to users after deducting revenue sharing fees paid to other recipients as revenue as the Group is considered as an agent within these experiences.

(a.ii) Audio entertainment

In audio-streaming chatrooms of the platform, the Group engages hosts to provide Audio Entertainment and each host must be contracted by an approved Guild where each Guild would be operated by a Representative. Both the host and Representative of the Guild must be contracted by the Group in order to provide Audio Entertainment to other users on the platform. The Group shares a portion of the revenue sharing fee with the recipients and their respective Guilds for those recipients who are hosts in accordance with agreements. The Group views users to be its customers. The Group evaluates and determines that it is the principal when delivering Audio Entertainment and reports the corresponding revenues on a gross basis. Accordingly, the amounts billed to users are recorded as revenues and revenue sharing fee paid to hosts and their respective Guilds are recorded as cost of revenues. However, when the virtual items are purchased by the hosts and presented them back to the users to show hosts' appreciation for supporting them, the portion retained by the Group in these transactions are recorded as reduction of cost of revenues. Given the nature of these experiences, where users may present virtual items to other users, the related revenue sharing fee paid to the recipients would be recorded as reduction of revenues.

Where the Group is the principal, it controls the content to be delivered within the Audio Entertainment as well as the virtual items before they are transferred to users. Its control is evidenced by the Group oversees the content to be distributed throughout these Audio Entertainment. Each time the Representative would like to host any Audio Entertainment on the platform, the content to be delivered is required to be pre-approved by the Group. Furthermore, during the delivery of the content, the Group would exercise on-going monitoring and if there is any deviation from the pre-approved content during the delivery, the Group would penalize the representatives and hosts from temporary suspension to permanent removal from the platform. In addition, the Group has the sole ability to monetize the virtual items before they are transferred to users, and is further supported by the Group being primarily responsible to users and having a level of discretion in establishing pricing. The Group designs, creates and offers various virtual items for sale to users with pre-determined stand-alone selling prices. Virtual items are categorized as consumable and time-based items. Consumable items are consumed upon purchase while time-based items could be used for a fixed period of time such as a virtual special symbol that can be purchased and displayed on the users' profile over a short fixed period of time; Users can purchase either consumable or time-based items and present these virtual items to hosts to show support for their favorite hosts or purchase time-based virtual items that enhance the users' personal profile. Time based virtual items are typically consumed within one to two months for the periods presented.

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(b) Online games revenues

The Group generates revenues from offering virtual items in online games developed by the Group itself or third parties to game users. The purchased virtual items, including consumable and perpetual items, can be utilized in the online games to enhance their game-playing experience. Consumable items represent virtual items that can be consumed by a specific game user within a specified period of time. Perpetual items represent virtual items that are accessible to the game users' account over the life of the online games. The Group has a recharge system for game user to purchase game tokens for use. Game user can recharge via various online third-party payment platforms, including WeChat Pay, AliPay and other payment platforms. The Group considers these payments platforms are its vendors and payment handling charges are recognised as cost of revenues. Game tokens is non-refundable and without expiry. As the game token is often consumed soon after it is purchased based on history of turnover of the game token, the Group considers it does not expect to be entitled to a breakage amount for the game token.

The majority of online games revenues were derived from the third parties' developed games for the periods presented.

(b.i) Third-parties' developed games

Pursuant to contracts signed between the Group and the respective game developers, game developers own the games' copyrights and other intellectual property, and take primary responsibilities of game development and game operation, including designing, developing and updating of the games related to game content, pricing of virtual items, providing ongoing updates of new content and bug fixing. The Group's responsibilities under the agreements with the game developers to offer certain standard promotions that include providing access to the platform, announcing the new games to users on the platform, and occasional advertising on the Group's platforms. Therefore, revenues derived from third party developed games are recorded on a net basis, net of the amount paid to game developers. Given that third party developed games are managed and administered by the third-party game developers, the Group does not have access to the data on the consumption details such as when the game token is spent on the virtual items or the types of virtual items (i.e. consumable or perpetual items) purchased by each individual game player. However, the Group maintains historical data on timing of the conversion of its virtual currency into game specific tokens and the amount of purchases of game tokens. The Group believes that its responsibility to the game developers correspond to the game developers' services to the game users. The Group has adopted a policy to recognize revenues relating to game tokens for third party developed games over the estimated user relationship period with the Group on a game-by-game basis, which is approximately one to two months for the periods presented. Future usage patterns may differ from historical usage patterns and therefore the estimated user relationship period with the Group may change in the future.

(b.ii) Self-developed games

With respect to the game operation contracts entered into between the Group and distribution platforms for co-publishing or between the Group and game users for self-publishing, the Group owns the games' copyrights and other intellectual property, and takes primary responsibilities of game development and game operation, including designing, development, and updating of the games including the game content, as well as the pricing of tokens and virtual items, providing on-going updates of new content and bug fixing, determining the distribution platforms and payment channels, and providing customer services. Therefore, the Group considers itself to be the principal in these contracts and views game users to be its customers. Revenues derived from self-developed games are recorded on a gross basis, and fees to be shared with distribution platforms and payment handling costs charged by payment platforms are recorded as cost of revenues.

Game users play games free of charge and are charged for purchases of virtual items mainly including consumable and perpetual items, which can be utilized to enhance users' game-playing experience. Consumable items represent virtual items that can be consumed by a specific game user within a specified period of time. Perpetual items represent virtual items that are accessible to the game users' account over the life of the online games. The Group does not maintain information on consumption details of virtual items, and only have limited information related to the frequency of log-ons. Given that a substantial of the virtual items purchased by the game users in self-developed games are perpetual items, the Group determined that it would be most appropriate to recognize over the estimated user relationship period with the Group, which is approximately one to two months for the periods presented.

The determination of user relationship period is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. The Group assesses the estimated game user relationships on a quarterly basis. Any adjustments arising from changes in the game user relationship as a result of new information will be accounted as a change in accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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2.22.2 *Contract balances*

Contract liabilities primarily consists of contract liabilities for unconsumed virtual currency and unamortized revenue from time-based virtual items in the Group’s platforms, where there is still an obligation to be provided by the Group, which will be recognized as revenue when all of the revenue recognition criteria are met.

When either party to a customer contract has performed, the Group presents the contract in the balance sheets as a trade receivable or contract liability, depending on the relationship between the Group’s performance and the customer’s payment. Contract balances include trade receivables and contract liabilities.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of the consideration is due.

Payment terms and conditions vary by contract and service type. A contract liability is the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

2.22.3 *Incremental costs of obtaining a contract*

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (payment handling charges) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

2.22.4 *Practical expedients and exemptions*

The Group has elected to use the practical expedient to not disclose the remaining performance obligations for contracts that have durations of one year or less, as substantially all of the Group’s contracts have duration of one year or less.

2.22.5 *Financing components*

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group has applied the practical expedient of not to adjust any of the transaction prices for the time value of money.

2.23 **Earnings/(Loss) per share**

Basic earnings/(loss) per share is calculated by dividing:

- (a) the profit/(loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares; and
- (b) by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year/period and excluding treasury shares.

Diluted earnings/(loss) per share adjusts the figures used in the determination of basic earnings/(loss) per share to take into account:

- (a) the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- (b) the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

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

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

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and
- makes adjustments specific to the lease, eg term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 15). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.25 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Finance income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see Note 10 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

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

2.27 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.28 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk primarily arises from recognised assets and liabilities denominated in a currency other than the functional currency of the Group’s subsidiaries. The Group manages its foreign exchange risk by minimising non-functional currency transactions.

The Group operates mainly in the PRC with most of the transactions settled in RMB. As at December 31, 2018 and 2019, management considers that the business is not exposed to significant foreign exchange risk as there are no significant assets or liabilities of the Group are denominated in the currencies other than the respective functional currencies of the Group’s entities.

As at December 31, 2020, and June 30, 2020 and 2021, the Group was exposed to foreign exchange risk primarily with respect to the potential effects on profit or loss from translation in intercompany balances which are not denominated in functional currency of the relevant group companies and US\$ forward contract which does not qualify for hedge accounting. RMB appreciation against US\$ during the year is the major reason for the exchange differences recognised by the Group. Further appreciation of US\$ against RMB will affect the Group’s financial position and results of operations.

The following table shows that, if US\$ had strengthened/weakened by 5% against RMB, with all other variables held constant, post-tax profit/loss for the year change, mainly as a result of foreign exchange gains/losses on translation of US\$ denominated amounts due to group companies whose functional currency is RMB.

	For the years ended December 31,			For the six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Post-tax profit/loss increase/(decrease)					
US\$ strengthen by 5%	–	–	(6,423)	3,097	(7,023)
US\$ weakened by 5%	–	–	6,423	(3,097)	7,023

(Unaudited)

(ii) Interest rate risk

Except for bank deposit at variable interest rate bank and time deposits, loan receivables and amounts due from related parties at fixed interest rate, the Group has no other significant interest-bearing assets.

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The Group’s exposure to changes in interest rates is mainly attributable to its bank borrowings, convertible redeemable preferred shares and convertible notes which are at fixed interest rate. The interest rate and terms of repayments of borrowings and convertible redeemable preferred shares are disclosed in Note 28 and Note 32 respectively.

The Group has not hedged its cash flow and fair value interest rate risk.

Management does not anticipate significant impact to the convertible redeemable preferred shares, convertible preferred shares, bank borrowings and convertible notes resulted from the changes in market interest rates. Moreover, given the stability of the interest rate in the recent financial market, in the opinion of the directors, the exposure of the convertible preferred shares, bank borrowings and convertible notes to fair value interest rate risk is considered to be low. Therefore, no sensitivity analysis is performed.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rate because the interest rates of bank deposits are not expected to change significantly.

(iii) Price risk

The Group is exposed to security price risk in respect of the financial assets measured at fair value through profit or loss and wealth management products. The Group is generally not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its investment portfolio. The sensitivity analysis is performed by management at Note 3.3 for details.

(b) Credit risk

Credit risk mainly arises from cash and cash equivalents, restricted cash, trade receivables, other receivables and amounts due from related parties. The carrying amount of these financial assets represents the Group’s maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Risk management

Trade and other receivables are managed on a group basis. The finance team is responsible for managing and analysing the credit risk for each new debtor before payment terms are offered. The Group assesses the credit quality of its customers and other debtors by taking into account various factors including their financial position, past operational and financial performance and other factors.

Cash and cash equivalents and restricted cash are mainly placed with reputable PRC and international financial institutions within PRC. There has been no recent history of default in relation to these financial institutions. The expected credit loss is not material.

(ii) Impairment of financial assets

Trade receivables

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

The expected loss rates are based on the historical payment profiles, historical loss rates and data published by external credit rating institution, adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Products (“GDP”) of the PRC to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

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On that basis, the loss allowances of trade receivables as at December 31, 2018, 2019 and 2020 and June 30, 2021 were determined as follows:

As at December 31, 2018

Individually impaired	Gross balance RMB'000	Expected credit loss rate	Loss allowance RMB'000	Reason		
Trade receivables	2,000	84.0%	1,680	The likelihood of recovery		
Others	0 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
Expected loss rate	0.00%	0.07%	0.29%	0.96%	8.60%	
Gross carrying amount (RMB'000)	32,794	835	2,000	1,780	6,231	43,640
Loss allowance provision (RMB'000)	1	1	6	17	536	561

As at December 31, 2019

Individually impaired	Gross balance RMB'000	Expected credit loss rate	Loss allowance RMB'000	Reason		
Trade receivables	2,000	100.0%	2,000	The likelihood of recovery		
Others	0 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
Expected loss rate	0.00%	0.08%	0.29%	–	94.10%	
Gross carrying amount (RMB'000)	36,386	668	89	–	572	37,715
Loss allowance provision (RMB'000)	–	1	–	–	538	539

As at December 31, 2020

Individually impaired	Gross balance RMB'000	Expected credit loss rate	Loss allowance RMB'000	Reason		
Trade receivables	–	–	–	Not applicable		
Others	0 to 90 days	91 to 180 days	181 to 270 days	271 to 360 days	Over 360 days	Total
Expected loss rate	0.27%	–	15.76%	–	16.63%	
Gross carrying amount (RMB'000)	45,326	–	1,640	–	255	47,221
Loss allowance provision (RMB'000)	123	–	259	–	42	424

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As at June 30, 2021

Individually impaired	Gross	Expected	Loss	Reason		
	balance	credit	allowance			
	RMB'000	loss rate	RMB'000			
Trade receivables	–	–	–	Not applicable		
	<u>–</u>		<u>–</u>			
Others	0 to	91 to	181 to	271 to	Over	
	90 days	180 days	270 days	360 days	360 days	Total
Expected loss rate	0.13%	33.23%	33.21%	–	35.31%	
Gross carrying amount (RMB'000)	<u>36,397</u>	<u>75</u>	<u>932</u>	<u>–</u>	<u>1,890</u>	<u>39,294</u>
Loss allowance provision (RMB'000)	<u>47</u>	<u>25</u>	<u>310</u>	<u>–</u>	<u>667</u>	<u>1,049</u>

Impairment losses on trade receivables are presented as “net impairment losses” within operating profit/(loss). Subsequent recoveries of amounts previously written off are credited against the same line item.

Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

Loss allowance provided for other receivables as at December 31, 2018, 2019 and 2020 and June 30, 2021 were approximately RMB57,000, RMB206,000, RMB5,288,000 and RMB15,109,000 respectively.

The credit loss allowance of June 30, 2021 mainly represented the impairment provision of overdue loan receivables, included both principal and interest receivables portion, from third parties. The management expected that such financial instruments are credit impaired and move to stage 3 in accordance with “three-stage” model under IFRS9. The Group applied lifetime ECL, and balances were fully impaired as at June 30, 2021.

Amounts due from related parties

Impairment on amounts due from related parties is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

Loss allowance provided for amounts due from related parties as at December 31, 2018, 2019 and 2020 and June 30, 2021 were approximately RMB1,101,000, RMB2,398,000, RMB6,118,000 and RMBnil respectively.

Others

While cash and cash equivalents, restricted cash and time deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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(c) *Liquidity risk*

The Group intends to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group’s liquidity risk and to maintain adequate liquid assets such as cash and cash equivalents, short-term time deposits and investments in wealth management products or to retain adequate financing arrangements to meet the Group’s liquidity requirements.

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

The Group recognizes the Convertible Redeemable Preferred Shares and Convertible Preferred Shares as financial liabilities at fair value through profit or loss, accordingly, the financial liabilities at fair value through profit or loss are managed on a fair value basis rather than by maturing dates and therefore disclose as fair value in the following table.

	Less than 1 year or repayable on demand <i>RMB’000</i>	Between 1 and 2 years <i>RMB’000</i>	Between 2 and 5 years <i>RMB’000</i>	Over 5 years <i>RMB’000</i>	Total <i>RMB’000</i>
As at December 31, 2018					
Accounts payable	114,021	–	–	–	114,021
Other payables and accruals (excluding employee benefit payables, and other taxes payable)	5,595	–	–	–	5,595
Lease liabilities	5,872	5,625	15,285	–	26,782
Total	125,488	5,625	15,285	–	146,398
As at December 31, 2019					
Accounts payable	112,964	–	–	–	112,964
Other payables and accruals (excluding employee benefit payables, and other taxes payable)	33,964	–	–	–	33,964
Lease liabilities	7,250	8,112	12,080	–	27,442
Amounts due to related parties	69,360	–	–	–	69,360
Total	223,538	8,112	12,080	–	243,730
As at December 31, 2020					
Accounts payable	116,543	–	–	–	116,543
Other payables and accruals (excluding employee benefit payables, and other taxes payable)	114,623	–	–	–	114,623
Lease liabilities	8,746	8,452	5,146	–	22,344
Borrowings (<i>Note a</i>)	128,809	–	–	–	128,809
Convertible redeemable preferred shares	–	–	746,193	–	746,193
Convertible preferred shares	–	–	314,726	–	314,726
Amounts due to related parties	35,234	–	–	–	35,234
Total	403,955	8,452	1,066,065	–	1,478,472

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	Less than 1 year or repayable on demand RMB’000	Between 1 and 2 years RMB’000	Between 2 and 5 years RMB’000	Over 5 years RMB’000	Total RMB’000
As at June 30, 2021					
Accounts payables	144,910	–	–	–	144,910
Other payables and accruals (excluding employee benefit payables, and other taxes payable)	149,394	–	–	–	149,394
Lease liabilities	31,607	31,947	71,957	21,279	156,790
Convertible redeemable preferred shares	–	–	1,565,565	–	1,565,565
Convertible preferred shares	–	–	642,149	–	642,149
Total	325,911	31,947	2,279,671	21,279	2,658,808

Note a: As of December 31, 2020, all borrowings are repayable within six months and the effective annual interest rates ranged from 4.0% to 4.8%. Borrowing costs are expensed in the periods when they are incurred.

3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders’ value in the long-term.

The Group monitors capital (including share capital, other reserves and convertible redeemable preferred shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company’s shares. In the opinion of the directors of the Company, the Group’s capital risk is low. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

3.3 Fair value estimation

The table below analyses the Group’s financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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The following table presents the Group’s financial assets and liabilities that are measured at fair value at December 31, 2018:

	Level 1 <i>RMB’000</i>	Level 2 <i>RMB’000</i>	Level 3 <i>RMB’000</i>	Total <i>RMB’000</i>
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity securities	–	–	1,809	1,809
– Wealth management products	–	22,000	–	22,000
	–	22,000	1,809	23,809

The following table presents the Group’s financial assets and liabilities that are measured at fair value at December 31, 2019:

	Level 1 <i>RMB’000</i>	Level 2 <i>RMB’000</i>	Level 3 <i>RMB’000</i>	Total <i>RMB’000</i>
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity securities	–	–	2,074	2,074
– Wealth management products	–	63,000	–	63,000
– Loan receivables with conversion option	–	10,000	–	10,000
	–	73,000	2,074	75,074

The following table presents the Group’s financial assets and liabilities that are measured at fair value at December 31, 2020:

	Level 1 <i>RMB’000</i>	Level 2 <i>RMB’000</i>	Level 3 <i>RMB’000</i>	Total <i>RMB’000</i>
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity securities	–	–	6,136	6,136
	–	–	6,136	6,136
Liabilities				
Convertible redeemable preferred shares	–	–	746,193	746,193
Convertible preferred shares	–	–	314,726	314,726
	–	–	1,060,919	1,060,919

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The following table presents the Group’s financial assets and liabilities that are measured at fair value at June 30, 2021:

	Level 1 <i>RMB’000</i>	Level 2 <i>RMB’000</i>	Level 3 <i>RMB’000</i>	Total <i>RMB’000</i>
Assets				
Financial assets at fair value through profit or loss				
– Unlisted equity securities	–	–	5,857	5,857
– Forward contracts	–	760	–	760
	<u>–</u>	<u>760</u>	<u>5,857</u>	<u>6,617</u>
Liabilities				
Convertible redeemable preferred shares	–	–	1,565,565	1,565,565
Convertible preferred shares	–	–	642,149	642,149
	<u>–</u>	<u>–</u>	<u>2,207,714</u>	<u>2,207,714</u>

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2. Level 2 instruments of Group’s assets and liabilities include short-term investments in wealth management products measured at fair value through profit or loss.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc..

Level 3 instruments of the Group’s assets and liabilities include long-term investments in unlisted entities measured at fair value through profit or loss, convertible preferred shares and convertible preferred shares.

The changes in level 3 instruments of convertible redeemable preferred shares and convertible preferred shares for the year ended December 31, 2020 and the six months ended June 30, 2021 are presented in the Note 33.

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The following table presents the changes in level 3 items of financial assets at fair value through profit or loss for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

	Financial assets at fair value through profit or loss RMB’000
At January 1, 2018	8,978
Additions	–
Disposal	(5,977)
Change in fair value through profit or loss	<u>(1,192)</u>
At December 31, 2018	<u>1,809</u>
At January 1, 2019	1,809
Disposal	–
Change in fair value through profit or loss	<u>265</u>
At December 31, 2019	<u>2,074</u>
At January 1, 2020	2,074
Additions	5,000
Disposal	(2,020)
Change in fair value through profit or loss	<u>1,082</u>
At December 31, 2020	<u>6,136</u>
(Unaudited)	
At January 1, 2020	2,074
Change in fair value through profit or loss	<u>17</u>
At June 30, 2020	<u>2,091</u>
At January 1, 2021	6,136
Change in fair value through profit or loss	<u>(279)</u>
At June 30, 2021	<u>5,857</u>

The Group manages the valuation of the investments on a case-by-case basis. At least once every year, the Group would use valuation techniques to determine the fair value of its level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included convertible redeemable preferred shares (Note 32) and convertible preferred shares (Note 33) and long-term investments measured at fair value through profit or loss in unlisted companies (Note 18). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc. Major assumptions used in the valuation for preferred shares are presented in Note 32 and 33.

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

Description	Fair Values			Significant unobservable inputs	Range of inputs			Relationship of unobservable inputs to fair values			
	As of December 31,		As of June 30,		As of December 31,		As of June 30,				
	2018	2019	2020		2018	2019	2020				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000				
Unlisted equity securities	1,809	2,074	6,136	2,091	5,857	Expected volatility	55% – 60%	53% – 56%	52% – 60%	52% – 60%	The higher the expected volatility, the lower the fair value
						Discount for lack of marketability (“DLOM”)	35% – 35%	35% – 35%	35% – 35%	35% – 35%	The higher the DLOM, the lower the fair value
						Risk-free rate	3% – 3%	3% – 3%	3% – 3%	3% – 3%	The higher the risk-free rate, the lower the fair value
Preferred shares	–	–	1,060,919	–	2,207,714	Expected volatility	–	–	48% – 49%	52% – 52%	The higher the expected volatility, the lower the fair value
						Discount for lack of marketability (“DLOM”)	–	–	20% – 20%	20% – 20%	The higher the DLOM, the lower the fair value

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The following table presents the lower/(higher) of the profit/(loss) before income tax for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 if the fair values of financial assets at fair value through profit or loss held by the Group had been 10% higher/lower.

% changes of fair values of financial assets at fair value through profit or loss	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
10% higher	181	207	(614)	209	(662)
10% lower	(181)	(207)	614	(209)	662

The following table presents the (higher)/lower of the profit/(loss) before income tax for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 if the Company’s equity value had increased/decreased by 10% with all other variables held constant.

% changes of the Company’s equity value	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Increased by 10%	–	–	(106,092)	–	(220,771)
Decreased by 10%	–	–	106,092	–	220,771

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

The carrying amounts of the Group’s other financial assets measured at amortized costs including cash and cash equivalents, restricted cash, trade receivables, other receivables, amounts due from related parties and the Group’s financial liabilities, including accounts payables, other payable and accruals, borrowings, amount due to related parties approximate their fair values due to their short maturities.

4 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which will seldom equal the actual results. Management needs to exercise judgement in applying the Group’s accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

4.1 Revenue recognition

Determining whether the Group is acting as a principal or as an agent when third-party is involved in the provision of certain services to its customers requires judgement and consideration of all relevant facts and circumstances. In evaluation of the Group’s role as a principal or agent, the Group considers factors to determine whether the Group controls the specified goods or service before it is transferred to the customer include, but are not limited to the following: (a) is primarily responsible for fulfilling the contract, (b) is subject to inventory risk, and (c) has discretion in establishing prices. Refer to Note 2.22 for details.

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4.2 Measurement of share-based compensation expenses

The Group granted options to employees. The fair value of the options are determined by the binomial option pricing model at the grant date, and is expected to be expensed over the respective vesting periods. Significant estimates and assumptions, including forfeiture rate, underlying equity value, risk-free interest rate, expected volatility, dividend yield, and terms, are made by the directors and third-party valuer (Note 26).

4.3 Estimation of the fair value of financial assets and financial liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions including credit risk, volatility and liquidity risks associated with the instruments at the end of each reporting period, which are subject to uncertainty and might materially differ from the actual results. Changes in these assumptions and estimates could materially affect the respective fair value of these financial assets (Note 3.3).

The convertible redeemable preferred shares and convertible preferred shares issued by the Company are not traded in an active market, and the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted the option-pricing method and equity allocation model to determine the fair value of the convertible redeemable preferred shares and convertible preferred shares. Key assumptions such as the discount rate, risk-free interest rate, lack of marketability discount and volatility, as well as the probability weight among the timing of the liquidation, redemption or [REDACTED] event scenarios based on the Group's best estimates, which is disclosed in Note 32.

4.4 Credit loss allowances for trade receivables, other receivables, amount due from related parties and other financial assets

The expected credit loss of trade receivables, other receivables, amount due from related parties and other financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to calculate the loss allowances, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 3.1(b).

4.5 Estimation of the useful life of intangible assets

The Group has acquired e-Sports licenses and contracts, technology and brand that are expected to enhance its online game and online interaction platform business. The Group estimates the useful life of the e-Sports licenses and technology and brand were to be 10, 7 and 5 years respectively based on the expected technical obsolescence of such assets. However, the actual useful life may be shorter or longer, depending on technological innovations and competitor actions.

4.6 Business combinations

Business combinations are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected lives of assets, the forecasted life cycles and forecasted cash flows over that period. Although the Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

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4.7 Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of CGUs was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated in Note 17. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 17.

5 SEGMENT INFORMATION

The Group’s business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM which are the Executive Directors of the Company. As a result of this evaluation, the CODM considers that the Group’s operations are operated and managed as a single segment. Accordingly, no segment information is presented.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC.

As of December 31, 2018, 2019 and 2020 and June 30, 2021, substantially all of the non-current assets of the Group were located in the PRC.

6 REVENUES

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Recognised over time					
– Value added services	–	–	24,821	6,388	63,179
– Games and others	179,001	119,973	58,340	28,334	12,874
Revenues at a point in time					
– Valued added services	253,865	716,354	1,332,311	566,744	900,060
– Audio entertainment	–	–	63,621	–	185,918
– Games and others	–	–	14,327	544	11,435
	<u>432,866</u>	<u>836,327</u>	<u>1,493,420</u>	<u>602,010</u>	<u>1,173,466</u>

There is no concentration risk as no revenue from a single customer was more than 10% of the Group’s total revenues for the years ended December 31, 2018, 2019 and 2020, and the six months ended June 30, 2020 and 2021.

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7 OTHER (LOSSES)/GAINS, NET

	Year ended December 31,			Six months ended June 30,	
	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>
				<i>(Unaudited)</i>	
Net gains/(losses) on disposal of property and equipment, and intangible assets	–	950	(2,441)	–	(607)
Net (losses)/gains on disposal of investment in associates	(924)	52	(501)	–	(3,615)
Net fair value losses on Investment properties	–	(3,040)	680	750	780
Net fair value (losses)/gains on financial assets at fair value through profit or loss					
– Investments in unlisted entities	(1,192)	265	1,082	17	(279)
– Wealth management products	–	1,309	211	211	–
– Forward contracts	–	–	–	–	760
– Loan receivables	–	–	(10,000)	–	–
Net fair value losses on convertible notes	–	–	–	(5,613)	–
Net foreign exchange gains	–	–	11,103	187	3,480
Government grants and value added tax subsidies	1,003	7,568	13,568	2,979	9,574
Others	213	1,983	(603)	1,071	4,404
	<u>(900)</u>	<u>9,087</u>	<u>13,099</u>	<u>(398)</u>	<u>14,497</u>

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8 EXPENSES BY NATURE

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Revenue sharing fees	115,844	277,364	432,586	165,044	396,527
Employee benefits expenses <i>(Note 9)</i>	120,544	128,810	324,959	107,576	410,778
Share-based compensation – non-employee	–	–	–	–	23,963
Advertising and promotion expenses	125,242	207,487	522,017	205,592	462,554
Depreciation of property and equipment <i>(Note 14)</i>	1,728	2,984	4,178	1,765	3,048
Depreciation of right-of-use assets <i>(Note 15)</i>	4,002	5,356	7,329	3,441	7,308
Amortization of intangible assets <i>(Note 17)</i>	4,768	4,417	24,696	7,652	19,540
Bandwidth costs	11,750	29,110	56,788	25,461	45,661
Payment handling costs	4,923	11,621	20,067	8,630	14,473
Professional fees	2,135	4,628	19,279	3,254	21,350
Auditor’s remuneration					
– Audit services	–	–	–	–	–
– Non-audit services	–	–	113	113	1,478
Net impairment losses	2,040	3,944	6,587	6,258	4,027
Others	26,365	40,390	69,798	28,453	40,969
	<u>419,341</u>	<u>716,111</u>	<u>1,488,397</u>	<u>563,239</u>	<u>1,451,676</u>

9 EMPLOYEE BENEFITS EXPENSES (INCLUDING DIRECTOR’S EMOLUMENTS)

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Wages, salaries and bonuses	65,928	94,258	195,881	63,680	275,020
Share-based compensation expenses	39,339	10,824	108,222	36,325	111,001
Other social security costs, housing benefits and other employee benefits	15,277	23,728	20,856	7,571	24,757
	<u>120,544</u>	<u>128,810</u>	<u>324,959</u>	<u>107,576</u>	<u>410,778</u>

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(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year/period include three directors whose emoluments are reflected in the analysis shown in Note 9b. The emoluments payable to the remaining two individuals during the year are as follows:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Wages, salaries and bonuses	941	1,890	1,988	720	44,181
Share-based compensation expenses	277	–	15,546	4,954	2,118
Other social security costs, housing benefits and other employee benefits	141	157	123	79	80
	<u>1,359</u>	<u>2,047</u>	<u>17,657</u>	<u>5,753</u>	<u>46,379</u>

The emoluments fell within the following bands:

	Number of individuals				
	Year ended December 31, 2018	2019	2020	Six months ended June 30, 2020	2021
				<i>(Unaudited)</i>	
HK\$nil to HK\$5,000,000	2	1	–	1	–
HK\$5,000,001 to HK\$10,000,000	–	1	1	1	–
HK\$10,000,001 to HK\$15,000,000	–	–	1	–	–
HK\$15,000,001 to HK\$20,000,000	–	–	–	–	–
HK\$20,000,001 to HK\$25,000,000	–	–	–	–	–
HK\$25,000,001 to HK\$30,000,000	–	–	–	–	2
	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

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(b) Benefits and interests of directors

The remuneration shown below represents remuneration from the Group by these directors on their capacity as employees of the Group and/or in their capacity as directors of the companies now comprising the Group. The remuneration of every director and the chief executive is set out below:

For the year ended December 31, 2018:

Name	Wages, salaries and bonuses RMB'000	Share-based compensation expenses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Chairman				
Song Ke (<i>Note vi</i>)	426	36,548	71	37,045
Executive directors				
Chen Guangyao (<i>Note vii</i>)	507	–	71	578
Du Guo (<i>Note viii</i>)	427	–	71	498
	<u>1,360</u>	<u>36,548</u>	<u>213</u>	<u>38,121</u>
Total	1,360	36,548	213	38,121

For the year ended December 31, 2019:

Name	Wages, salaries and bonuses RMB'000	Share-based compensation expenses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Chairman				
Song Ke (<i>Note vi</i>)	1,500	9,180	78	10,758
Executive directors				
Chen Guangyao (<i>Note vii</i>)	850	–	78	928
Du Guo (<i>Note viii</i>)	1,200	–	78	1,278
	<u>3,550</u>	<u>9,180</u>	<u>234</u>	<u>12,964</u>
Total	3,550	9,180	234	12,964

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For the year ended December 31, 2020:

Name	Wages, salaries and bonuses RMB'000	Share-based compensation expenses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Chairman				
Song Ke (<i>Note vi</i>)	35,865	21,762	68	57,695
Executive directors				
Chen Guangyao (<i>Note vii</i>)	1,220	16,124	68	17,412
Du Guo (<i>Note viii</i>)	1,200	23,514	68	24,782
Non-executive directors				
Li Jie	–	–	–	–
Wang Huadong	–	–	–	–
Total	<u>38,285</u>	<u>61,400</u>	<u>204</u>	<u>99,889</u>

For the six months ended June 30, 2020 (Unaudited):

Name	Wages, salaries and bonuses RMB'000	Share-based compensation expenses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Chairman				
Song Ke (<i>Note vi</i>)	757	3,167	41	3,965
Executive directors				
Chen Guangyao (<i>Note vii</i>)	587	9,025	41	9,653
Du Guo (<i>Note viii</i>)	607	12,916	41	13,564
Total	<u>1,951</u>	<u>25,108</u>	<u>123</u>	<u>27,182</u>

For the six months ended June 30, 2021:

Name	Wages, salaries and bonuses RMB'000	Share-based compensation expenses RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Total RMB'000
Chairman				
Song Ke (<i>Note vi</i>)	600	50,543	45	51,188
Executive directors				
Chen Guangyao (<i>Note vii</i>)	33,773	468	45	34,286
Du Guo (<i>Note viii</i>)	62,612	670	45	63,327
Non-executive directors				
Li Jie (<i>Note ix</i>)	–	–	–	–
Wang Huadong	–	–	–	–
Total	<u>96,985</u>	<u>51,681</u>	<u>135</u>	<u>148,801</u>

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(i) Benefits and interests of directors

Except for directors disclosed above, there is no other benefits and interests offered to the other directors.

(ii) Directors’ termination benefits

No director’s termination benefit subsisted at the end of the period or at any time during the Track Record Period.

(iii) Consideration provided to third parties for making available directors’ services

No consideration provided to third parties for making available director’s services subsisted at the end of the period or at any time during the Track Record Period.

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

During the Track Record Period, the Group has issued several shareholder loans to management and their affiliates of the Group. Please see Note 37 for details.

Except for the above loans, no other loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors was subsisted at the end of the period or at any time during the Track Record Period.

(v) Directors’ material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of the period or at any time during the Track Record Period.

(vi) Mr. Song Ke is also the Chief Executive Officer of the Group.

(vii) Mr. Chen Guangyao is also the Senior Vice President of the Group.

(viii) Mr. Du Guo was the Vice President of the Group before nominated as director of the Company.

(ix) Li Jie resigned as the non-executive director of the Company with effect from May 9, 2021.

10 FINANCE INCOME, NET

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Finance income:					
Interest income from bank deposits	366	348	1,355	459	1,019
Interest income from loan receivables and loan to related parties	702	1,766	7,165	2,206	2,561
	<u>1,068</u>	<u>2,114</u>	<u>8,520</u>	<u>2,665</u>	<u>3,580</u>
Finance costs:					
Interest expense from lease liabilities	(777)	(883)	(984)	(516)	(938)
Interest expense from borrowings	–	–	(3,233)	(905)	(1,508)
	<u>(777)</u>	<u>(883)</u>	<u>(4,217)</u>	<u>(1,421)</u>	<u>(2,446)</u>
Finance income, net	<u><u>291</u></u>	<u><u>1,231</u></u>	<u><u>4,303</u></u>	<u><u>1,244</u></u>	<u><u>1,134</u></u>

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11 INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amounts recognised in the consolidated balance sheets are as follows:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Associates	6,745	5,056	8,724	53,658

The amounts recognised in the consolidated income statements and consolidate statements of comprehensive income are as follows:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Shares of (loss)/profit and total comprehensive (loss)/income from associates	(482)	(942)	(831)	27	(1,219)

Set out below is the summary of the associates of the Group. The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of and the principal place of business is in, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Nature of business	% of ownership interest			
		December 31, 2018	December 31, 2019	December 31, 2020	June 30, 2021
		%	%	%	%
Wenzhou Fengshang Network Technology Ltd (“Wenzhou Fengshang”) (Note i)	Operates in introduction and promotion of online services via online chatting platforms	19.5	19.5	19.5	19.5
Guangzhou Yiyou Network Technology Ltd (“Guangzhou Yiyou”)	Operates in introduction and promotion of online services via online chatting platforms	30.0	30.0	30.0	–
Guangxi Youhuan Network Technology Ltd (“Guangxi Youhuan”)	Operates in introduction and promotion of online services via online chatting platforms	49.0	49.0	–	–
Guangzhou Huanma Network Technology Ltd (“Guangzhou Huanma”)	Operates in introduction and promotion of online services via online chatting platforms	49.0	49.0	49.0	–

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Name of entity	Nature of business	% of ownership interest			
		December 31, 2018 %	December 31, 2019 %	December 31, 2020 %	June 30, 2021 %
Shishi Shayou Network Technology Ltd (“Shishi Shayou”) (Note ii)	Operates in the website developing industry	18.5	–	–	–
Guangzhou Huichen Technology Ltd (“Guangzhou Huichen”)	Operates in the website developing industry	20.0	–	–	–
Guangzhou Huanyu Mobile Technology Ltd (“Guangzhou Huanyu”) (Note iii)	Operates in game designing industry	10.0	10.0	10.0	–
Beijing Youqu Future Network Technology Ltd (“Beijing Youqu”) (Note iv)	Operates in game designing industry	–	–	15.0	45.0
Guangzhou Xinyan Information Technology Ltd (“Guangzhou Xinyan”) (Note v)	Operates in digital cultural creative software development	–	–	–	16.7
Beijing Meihao Interactive Entertainment Technology Ltd (“Beijing Meihao”)	Operates in computer system service industry	–	–	–	30.0

Note:

- (i) As of December 31, 2018, 2019 and 2020, and June 30, 2021, the Group has the right to appoint two out of five directors on the board of directors of Wenzhou Fengshang, which allows the Group to demonstrate significant influence over Wenzhou Fengshang.
- (ii) As of December 31, 2018, the Group has the right to appoint one out of three directors on the board of directors of Shishi Shayou, which allowed the Group to demonstrate significant influence over Shishi Shayou.
- (iii) As of December 31, 2018, 2019 and 2020, and June 30, 2021, the Group has the right to appoint one out of four directors on the board of directors of Guangzhou Huanyu, which allowed the Group to demonstrate significant influence over Guangzhou Huanyu.
- (iv) As of December 31, 2020, and June 30, 2021, the Group has the right to appoint one out of three directors on the board of directors of Beijing Youqu, which allows the Group to demonstrate significant influence over Beijing Youqu. During the six months ended June 30, 2021, the Group has additional capital injection of approximately RMB10,000,000 into Beijing Youqu and acquired additional 30% equity interests in Beijing Youqu.
- (v) As of June 30, 2021, the Group has the right to appoint one out of three directors on the board of directors of Guangzhou Xinyan, which allowed the Group to demonstrate significant influence over Guangzhou Xinyan.

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Movement on the Group’s investment in associates during the period was as follows:

	Year ended December 31,			Six months ended June 30,	
	2018 RMB’000	2019 RMB’000	2020 RMB’000	2020 RMB’000 (Unaudited)	2021 RMB’000
At beginning of the year/period	9,182	6,745	5,056	5,056	8,724
Addition	500	–	5,000	5,000	40,000
Capital injection	–	–	–	–	10,000
Disposal	(2,455)	(747)	(501)	–	(3,847)
Share of (losses)/profits, net	(482)	(942)	(831)	27	(1,219)
At end of the year/period	<u>6,745</u>	<u>5,056</u>	<u>8,724</u>	<u>10,083</u>	<u>53,658</u>

Investment in individually immaterial associates

The Group holds interests in a number of individually immaterial associates that are accounted for using the equity method.

	As of December 31,			As of
	2018 RMB’000	2019 RMB’000	2020 RMB’000	June 30, 2021 RMB’000
Aggregate carrying amount of individually immaterial associates	<u>6,745</u>	<u>5,056</u>	<u>8,724</u>	<u>53,658</u>
Aggregate amounts of the Group’s share of net losses:	<u>(482)</u>	<u>(942)</u>	<u>(831)</u>	<u>(1,219)</u>
Total comprehensive losses	<u>(482)</u>	<u>(942)</u>	<u>(831)</u>	<u>(1,219)</u>

12 INCOME TAX CREDIT/(EXPENSES)

(a) Cayman Islands

The Company is incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands and is not subject to tax on income or capital gains. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

(b) Hong Kong Profit Tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong before April 1, 2018. Starting from the financial year commencing on April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

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(c) PRC Enterprise Income Tax (“EIT”)

The PRC Enterprise Income Tax Law (“EIT Law”), which became effective January 1, 2008, applies an uniform enterprise income tax (“EIT”) rate of 25% to both foreign-invested enterprises (“FIEs”) and domestic enterprises.

Pursuant to the relevant tax regulations in the PRC, qualified software enterprises (“Software Enterprise”) are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first profit making year. Guangzhou Quwan is qualified as qualified software enterprise and subjected to EIT exemption for the years ended December 31, 2018 and 2019, and a 50% reduction in the applicable tax rates for the six months ended June 30, 2020, June 30, 2021, and years ended December 31, 2020, 2021 and 2022.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75% effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 (“Super Deduction”). Guangzhou Quwan and some of its PRC subsidiaries are qualified to enjoy the additional 75% tax deducting for the six months ended June 30, 2020, June 30, 2021, and years ended December 31, 2018, 2019, 2020.

Under the EIT Law enacted by the National People’s Congress of the PRC, dividends generated after January 1, 2008 and payable by a foreign investment enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the “beneficial owner” and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with the PRC.

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located.” Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC will be considered a resident enterprise for PRC tax purposes. However, due to limited guidance and implementation history of the EIT Law, there is uncertainty as to the application of the EIT Law. Should the Company be treated as a resident enterprise for PRC tax purposes, the Company will be subject to PRC income tax on worldwide income at a uniform tax rate of 25%.

(d) Singapore Income Tax

Under the Singapore Income Tax Act, the subsidiaries of the Group operated in Singapore are subject to 17% corporate tax on their taxable income generated from operations in Singapore. Additionally, payments of dividends by the subsidiaries incorporated in Singapore to the Company are not subject to any Singapore withholding tax. No provision for Singapore Income Tax was made as we had no estimated assessable profit that was subject to Singapore Income Tax during the Track Record Period.

The income tax expenses of the Group during the Track Record Period are analysed as follows:

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				<i>(Unaudited)</i>	
Current income tax	–	–	(14,528)	(12,534)	(6,592)
Deferred income tax	947	1,288	1,649	2,350	1,075
	<u>947</u>	<u>1,288</u>	<u>1,649</u>	<u>2,350</u>	<u>1,075</u>
Income tax credit/(expenses)	<u>947</u>	<u>1,288</u>	<u>(12,879)</u>	<u>(10,184)</u>	<u>(5,517)</u>

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The tax on the Group’s profit/(loss) before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30, 2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before income tax	12,434	129,592	(141,130)	39,644	(983,131)
Tax calculated at statutory income tax rate of 25% in mainland China	3,109	32,398	(35,283)	9,911	(245,783)
Tax effects of:					
– Preferential income tax rates applicable to subsidiaries	(7,766)	(27,208)	(22,177)	(16,217)	(1,331)
– Different tax rates in other jurisdictions	–	–	65	–	43
– Income not subject to tax	(990)	(372)	(574)	(160)	(309)
– Expenses not deductible for tax purposes (<i>Note i</i>)	8,581	3,714	81,592	22,239	259,467
– Tax losses which no deferred tax asset was recognized	3,943	4,901	5,450	2,241	3,201
– Super deduction for research and development expenses	(7,824)	(14,721)	(16,194)	(7,830)	(9,771)
	<u>(947)</u>	<u>(1,288)</u>	<u>12,879</u>	<u>10,184</u>	<u>5,517</u>

Note i: Expenses not deductible for income tax purposes were mainly related to share-based compensation expenses and fair value loss of convertible redeemable preferred shares and convertible preferred shares.

13 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021 are calculated by dividing the profit/(loss) attributable to the Company’s equity holders by the weighted average number of ordinary shares in issue during the year/period.

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Numerator:					
Net profit/(loss) attributable to equity holders of the Company	<u>13,381</u>	<u>130,880</u>	<u>(152,247)</u>	<u>29,639</u>	<u>(981,464)</u>
Denominator:					
Weighted average number of ordinary shares in issue (basic)	74,861,974	75,533,976	76,075,189	76,037,869	68,451,744

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	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Weighted average number of ordinary shares in issue (diluted)	75,993,658	76,104,848	76,075,189	76,153,387	68,451,744
Basic earnings/(loss) per share (expressed in RMB per share)	0.18	1.73	(2.00)	0.39	(14.34)
Diluted earnings/(loss) per share (expressed in RMB per share)	0.18	1.72	(2.00)	0.39	(14.34)

For the purpose of computing basic and diluted profit/(loss) per ordinary share, ordinary shares issued upon completion of Reorganization, vested share options with minimal exercise price were assumed to have been issued and allocated on January 1, 2018 and each of the years/periods end respectively.

(b) Diluted earnings/(loss) per share

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

During the Track Record Period, the Company had three categories of potential ordinary shares: preferred shares (Note 32 and 33), convertible notes (Note 31) and share options granted under 2015 PRC Incentive Plan and 2020 Global Incentive Plan (Note 26). As the Company incurred losses for the years ended December 31, 2020 and the six months ended June 30, 2021, these potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, the amounts of diluted loss per share for the years ended December 31, 2020 and the six months ended June 30, 2021 were the same as basic loss per share of the respective year/period. Convertible notes were not assumed to be converted as they would have an anti-dilutive impact to the profit attributable to shareholders of the Company per share for the six months ended June 30, 2020.

(c) Weighted average number of shares used as the denominator

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	74,861,974	75,533,976	76,075,189	76,037,869	68,451,744
Adjustments for calculation of diluted earnings per share:					
Options	1,131,684	570,873	–	115,518	–
	75,993,658	76,104,848	76,075,189	76,153,387	68,451,744

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14 PROPERTY AND EQUIPMENT

The detailed information of property and equipment during Track Record Period is as below:

	Buildings <i>RMB'000</i>	Servers, computers and equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2018						
Cost	–	2,067	–	740	–	2,807
Accumulated depreciation	–	(566)	–	(256)	–	(822)
Net book amount	–	1,501	–	484	–	1,985

	Buildings <i>RMB'000</i>	Servers, computers and electronic equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office and transportation equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended December 31, 2018						
Opening net book amount	–	1,501	–	484	–	1,985
Additions	–	2,329	7,043	913	31,865	42,150
Disposal	–	(2)	–	–	–	(2)
Depreciation charge	–	(484)	(1,014)	(230)	–	(1,728)
Closing net book amount	–	3,344	6,029	1,167	31,865	42,405

At December 31, 2018						
Cost	–	4,394	7,043	1,653	31,865	44,955
Accumulated depreciation	–	(1,050)	(1,014)	(486)	–	(2,550)
Net book amount	–	3,344	6,029	1,167	31,865	42,405

Year ended December 31, 2019						
Opening net book amount	–	3,344	6,029	1,167	31,865	42,405
Additions	–	3,158	912	211	–	4,281
Disposal	–	(416)	–	–	–	(416)
Transfer upon completion of construction	14,205	–	–	–	(14,205)	–
Transfer to investment properties	–	–	–	–	(17,660)	(17,660)
Depreciation charge	(225)	(955)	(1,481)	(323)	–	(2,984)
Closing net book amount	13,980	5,131	5,460	1,055	–	25,626

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	Buildings <i>RMB'000</i>	Servers, computers and electronic equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office and transportation equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At December 31, 2019						
Cost	14,205	6,970	7,954	1,864	–	30,993
Accumulated depreciation	(225)	(1,839)	(2,494)	(809)	–	(5,367)
Net book amount	13,980	5,131	5,460	1,055	–	25,626
Year ended December 31, 2020						
Opening net book amount	13,980	5,131	5,460	1,055	–	25,626
Additions	–	5,878	1,576	3,410	–	10,864
Disposal	–	(269)	–	(2)	–	(271)
Depreciation charge	(450)	(1,845)	(1,647)	(236)	–	(4,178)
Closing net book amount	13,530	8,895	5,389	4,227	–	32,041
At December 31, 2020						
Cost	14,205	12,396	8,730	5,272	–	40,603
Accumulated depreciation	(675)	(3,501)	(3,341)	(1,045)	–	(8,562)
Net book amount	13,530	8,895	5,389	4,227	–	32,041
(Unaudited)						
Six months ended June 30, 2020						
Opening net book amount	13,980	5,131	5,460	1,055	–	25,626
Additions	–	1,633	884	117	–	2,634
Disposal	–	(201)	–	–	–	(201)
Depreciation charge	(225)	(632)	(737)	(171)	–	(1,765)
Closing net book amount	13,755	5,931	5,607	1,001	–	26,294
At June 30, 2020						
Cost	14,205	8,394	8,038	1,982	–	32,619
Accumulated depreciation	(450)	(2,463)	(2,431)	(981)	–	(6,325)
Net book amount	13,755	5,931	5,607	1,001	–	26,294

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	Buildings <i>RMB'000</i>	Servers, computers and electronic equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office and transportation equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended June 30, 2021						
Opening net book amount	13,530	8,895	5,389	4,227	–	32,041
Additions	–	4,091	2,260	1,853	–	8,204
Disposal	–	(607)	–	–	–	(607)
Depreciation charge	(225)	(1,155)	(1,129)	(539)	–	(3,048)
Closing net book amount	13,305	11,224	6,520	5,541	–	36,590
At June 30, 2021						
Cost	14,205	15,439	10,990	7,128	–	47,762
Accumulated depreciation	(900)	(4,215)	(4,470)	(1,587)	–	(11,172)
Net book amount	13,305	11,224	6,520	5,541	–	36,590

Depreciation expenses have been charged to the consolidated income statements as follows:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Selling and marketing expenses	383	542	512	281	320
Administrative expenses	1,244	2,250	3,244	1,330	2,383
Research and development expenses	101	192	422	154	345
	1,728	2,984	4,178	1,765	3,048

15 LEASE

(a) Items recognised in the consolidated balance sheets

This note provides information for leases where the Group is a lessee.

The Group’s right-of-use assets and lease liabilities mainly arise from leases of office buildings with lease terms of 1 year to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Extension and termination options are included in a number of property leases across the Group. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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The consolidated balance sheets show the following amounts relating to leases:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Right-of-use assets				
Office buildings	22,685	24,734	18,489	137,957
	<u>22,685</u>	<u>24,734</u>	<u>18,489</u>	<u>137,957</u>

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Lease liabilities				
Current	3,380	6,936	8,048	25,908
Non-current	21,052	19,913	13,145	114,608
	<u>24,432</u>	<u>26,849</u>	<u>21,193</u>	<u>140,516</u>

Additions to the right-of-use assets for the years ended December 31, 2018, 2019 and 2020, and the six months ended June 30, 2020 and 2021 were approximately RMB26,687,000, RMB9,115,000, RMB4,852,000, RMB1,961,000 and RMB129,093,000, respectively.

(b) **Items recognised in the consolidated income statements:**

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation charge of right-of-use assets	4,002	5,356	7,329	3,441	7,308
Interest expense (included in finance (cost)/income, net)	777	883	984	516	938
Expense relating to short-term leases not included in lease liabilities (included in cost of revenues, selling and marketing expenses, administrative expenses and research and development expenses)	3,455	1,182	2,356	4,056	1,439
	<u>8,234</u>	<u>7,421</u>	<u>10,669</u>	<u>8,013</u>	<u>9,685</u>

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The total cash outflow in financing activities for leases during the years ended December 31, 2018, 2019, 2020 and six months ended June 30, 2020 and 2021 are as below:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Principal elements of lease payments	2,255	4,989	6,719	2,750	7,415
Related interest paid	777	883	984	516	938
	<u>3,032</u>	<u>5,872</u>	<u>7,703</u>	<u>3,266</u>	<u>8,353</u>

16 INVESTMENT PROPERTIES

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
Beginning of the year/period	–	–	14,620	15,300
Transfer from property	–	17,660	–	–
Fair value loss	–	(3,040)	680	780
End of the year/period	<u>–</u>	<u>14,620</u>	<u>15,300</u>	<u>16,080</u>

During the year ended December 31, 2019, the Group entered into rental agreements with several independent third parties for certain floors of a building classified as property, indicating a change in the intended use of the property and equipment. As a result, the relevant property was reclassified as investment property carried at fair value.

As at December 31, 2020, the investment property was pledged as a collateral for the Group’s bank borrowings of approximately RMB46,500,000. (Note 28)

As at 31 December 2019 and 2020, the fair values of the investment properties were measured at level 3 of fair value hierarchy using significant unobservable inputs. There were no transfers between levels 1, 2 and 3 during the year.

(i) Amounts recognized in profit or loss for investment properties

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Rental income from operating leases recognized in other gains, net	–	201	938	554	590
Direct operating expenses from property that generated rental income	–	(17)	(610)	(300)	(321)
Fair value (loss)/gain recognized in other (losses)/gains, net	–	(3,040)	680	750	780
	<u>–</u>	<u>(2,856)</u>	<u>1,008</u>	<u>1,004</u>	<u>1,049</u>

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(ii) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable monthly. There are no other variable lease payments. To reduce credit risk, the Group normally retains rental deposits from the lessees. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

Minimum lease payments receivable on leases of investment properties are as follows:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Within 1 year	–	919	998	985
Between 1 and 2 years	–	978	767	276
Between 2 and 3 years	–	766	–	–
	–	2,663	1,765	1,261

Valuation processes of the Group

The Group’s investment property was valued at December 31, 2019 and 2020 and June 30, 2020 and 2021 by an independent professionally qualified valuer who holds a recognised relevant professional qualification. The Group’s finance department reviews the valuation performed by the independent valuer for financial reporting purposes. This team reports directly to the Chief Financial Officer (“CFO”). Discussions of valuation processes and results are held among the CFO, the finance team and the valuer. As at December 31, 2019 and 2020 and June 30, 2020 and 2021, the fair value of the property has been determined by Avista Valuation Advisory Limited.

Valuation techniques

Fair value of the investment property is derived by using the term and reversion method with significant unobservable inputs (level 3). Term and reversion method measures the fair value of the property by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates.

There were no changes to the valuation techniques during the Track Record Period.

Information about fair value measurement using significant unobservable inputs

Term yield and reversionary yield are estimated by Avista Valuation Advisory Limited based on return of property being valued. A significant increase (decrease) in the term yield and the reversionary yield in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

At December 31, 2019 and 2020 and June 30, 2020 and 2021, term yield and the reversionary yield of 5.1% and 5.6% is used in the valuation.

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17 INTANGIBLE ASSETS

The detail information of intangible assets during Track Record Period is as below:

	Goodwill	Acquired technology	Acquired Brand name	E-Sports players' rights	E-Sports licenses and contracts	Online game licenses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018								
Cost	-	-	-	-	-	8,320	3,208	11,528
Accumulated amortization	-	-	-	-	-	(3,009)	(1,218)	(4,227)
Net book amount	-	-	-	-	-	5,311	1,990	7,301
Year ended December 31, 2018								
Opening net book amount	-	-	-	-	-	5,311	1,990	7,301
Additions	-	-	-	-	-	4,718	95	4,813
Disposals	-	-	-	-	-	-	-	-
Amortization charge	-	-	-	-	-	(3,126)	(1,642)	(4,768)
Closing net book amount	-	-	-	-	-	6,903	443	7,346
At December 31, 2018								
Cost	-	-	-	-	-	13,038	3,303	16,341
Accumulated amortization	-	-	-	-	-	(6,135)	(2,860)	(8,995)
Net book amount	-	-	-	-	-	6,903	443	7,346
Year ended December 31, 2019								
Opening net book amount	-	-	-	-	-	6,903	443	7,346
Additions	-	-	-	-	-	4,900	748	5,648
Acquisition of subsidiary (Note 34a)	-	-	-	-	41,873	-	-	41,873
Disposals	-	-	-	-	-	(655)	-	(655)
Amortization charge	-	-	-	-	-	(4,057)	(360)	(4,417)
Closing net book amount	-	-	-	-	41,873	7,091	831	49,795
At December 31, 2019								
Cost	-	-	-	-	41,873	16,995	4,049	62,917
Accumulated amortization	-	-	-	-	-	(9,904)	(3,218)	(13,122)
Net book amount	-	-	-	-	41,873	7,091	831	49,795
Year ended December 31, 2020								
Opening net book amount	-	-	-	-	41,873	7,091	831	49,795
Additions (Note i)	-	-	-	19,976	198,113	3,774	857	222,720
Disposals	-	-	-	(4,343)	-	-	(100)	(4,443)
Amortization charge	-	-	-	(2,868)	(15,744)	(5,603)	(481)	(24,696)
Closing net book amount	-	-	-	12,765	224,242	5,262	1,107	243,376

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	Goodwill RMB'000	Acquired technology RMB'000	Acquired Brand name RMB'000	E-Sports players' rights RMB'000	E-Sports licenses and contracts RMB'000	Online game licenses RMB'000	Others RMB'000	Total RMB'000
At December 31, 2020								
Cost	-	-	-	14,343	239,986	16,221	1,475	272,025
Accumulated amortization	-	-	-	(1,578)	(15,744)	(10,959)	(368)	(28,649)
Net book amount	-	-	-	12,765	224,242	5,262	1,107	243,376
(Unaudited)								
Six months ended								
June 30, 2020								
Opening net book amount	-	-	-	-	41,873	7,091	831	49,795
Additions (Note i)	-	-	-	7,267	198,114	-	414	205,795
Disposals	-	-	-	(568)	-	-	-	(568)
Amortization charge	-	-	-	(1,110)	(3,745)	(2,579)	(218)	(7,652)
Closing net book amount	-	-	-	5,589	236,242	4,512	1,027	247,370
At June 30, 2020								
Cost	-	-	-	6,699	239,987	12,447	1,486	260,619
Accumulated amortization	-	-	-	(1,110)	(3,745)	(7,935)	(459)	(13,249)
Net book amount	-	-	-	5,589	236,242	4,512	1,027	247,370
Six months ended								
June 30, 2021								
Opening net book amount	-	-	-	12,765	224,242	5,262	1,107	243,376
Additions	-	-	-	11,407	-	-	1,061	12,468
Acquisition of subsidiary (Note 34b)	44,790	20,937	7,590	-	-	-	2	73,317
Disposals	-	-	-	(5,453)	-	(943)	(482)	(6,878)
Amortization charge	-	(748)	(380)	(2,670)	(11,999)	(3,312)	(431)	(19,540)
Closing net book amount	44,790	20,189	7,210	16,049	212,243	1,007	1,255	302,743
At June 30, 2021								
Cost	44,790	20,937	7,590	18,631	239,986	15,278	2,009	349,221
Accumulated amortization	-	(748)	(380)	(2,582)	(27,743)	(14,271)	(754)	(46,478)
Net book amount	44,790	20,189	7,210	16,049	212,243	1,007	1,255	302,743

Note:

- i) In June 2020, the Group acquired certain rights and licenses in the League of Legends Professional League from an independent third party and the league operator for a total cash consideration of approximately RMB210,000,000. These rights and licenses entitled the Group to own a permanent tournament participation right in the League of Legends Professional League, an official e-Sports League operated by Tencent. On the date of acquisition, these rights and licenses had the total fair value of approximately RMB198,114,000, after tax. The Group expects to increase its online game businesses through the acquisitions these related rights and licenses.

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(ii) Goodwill

The balance includes the goodwill of approximately RMB44,799,000 arising from the acquisition of Uki Holding Limited. For details of acquisition and valuation models adopted in the purchase price allocation exercise, please refer to Notes 4 and 34.

The goodwill is allocated to the interactive online business, one of the Group’s cash-generated units (“CGU”) as the Group expected the synergies can be generated from leveraging the Group industry expertise with Uki’s customer database and assembled workforce.

For the purpose of impairment test of goodwill, Management performed a valuation for the recoverable amount of goodwill. The recoverable amount of a cash generated-unit was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management for recent years with a terminal value related to the future cash flows extrapolated using the estimated growth rates stated below. The Group believes that it is appropriate to cover five years in its cash flow projection according to the budget approved, because it captures the development stage of the Group’s businesses during which the Group expects to experience a high growth rate. The accuracy and reliability of the information is reasonably assured by the appropriate budgeting, forecast and control process established by the Group. The management leveraged their extensive experiences in the industries and provided forecast based on past performance and their expectation of future business plans and market developments.

The recoverable amount of the CGU relating to the goodwill in Uki was determined based on value-in-use calculation. The calculation uses cash flow projected based on financial budgets of five year period which reflects the medium term plan of management in expanding the market share. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates.

The key assumptions adopted in the value-in-use calculation are as follows:

Average gross profit margin	52.5%
Five-year compound revenue growth rate	54.5%
Terminal growth rate	3.0%
Pre-tax discount rate	22.1%

- (i) The average gross profit margin and five-year compound revenue growth rate are based on past performance and management’s expectations of market development.
- (ii) The terminal growth rate is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
- (iii) The pre-tax discount rate reflects specific risks relating to the relevant segments and the countries/territories in which they operate.

The recoverable amount calculated based on the value-in-use calculation exceeded the carrying amount of Uki by approximately RMB4,814,000. If the key assumptions decreased by the following percentages, all considered in isolation, it would remove the headroom.

Average gross profit margin	0.50%
Five-year compound revenue growth rate	1.88%
Terminal growth rate	1.10%

(iii) Other intangible assets

Other intangible assets mainly represented technology, brand name, and e-Sports licenses and contracts acquired through business and assets acquisition transactions (see Note 34 for details).

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18A FINANCIAL INSTRUMENTS BY CATEGORY

The detail information of financial instruments by category during Track Record Period is as below:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Assets as per balance sheets				
Financial assets measured at fair value through profit or loss:				
– Unlisted equity securities	1,809	2,074	6,136	5,857
– Loan receivables with conversion option	–	10,000	–	–
– Wealth management products	22,000	63,000	–	–
– Forward contracts	–	–	–	760
Financial assets measured at amortized costs:				
– Trade receivables	41,399	35,176	46,797	38,245
– Other receivables and other current assets (excluding prepayments)	10,154	22,820	39,702	47,067
– Amount due from related parties	53,030	104,065	272,147	–
– Restricted cash	–	–	–	2,452
– Cash and cash equivalents	41,162	78,310	629,319	794,829
Total	169,554	315,445	994,101	889,210

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Liabilities as per balance sheets				
Financial liabilities measured at fair value through profit or loss:				
– Convertible redeemable preferred shares	–	–	746,193	1,565,565
– Convertible preferred shares	–	–	314,726	642,149
Financial liabilities measured at amortized cost:				
– Accounts payables	114,021	112,964	116,543	144,910
– Other payables and accruals (excluding employee benefit payables, and other taxes payable)	5,595	33,964	114,624	149,396
– Lease liabilities	24,432	26,849	21,193	140,516
– Borrowings	–	–	126,500	–
– Amount due to related parties	–	69,360	35,234	–
Total	144,048	243,137	1,475,013	2,642,536

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18B FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Non-current assets				
Investments in unlisted entities	1,809	2,074	6,136	5,857
Current assets				
Wealth management products	22,000	63,000	–	–
Forward contracts	–	–	–	760
Loan receivables with conversion options	–	10,000	–	–
	22,000	73,000	–	760
Total	23,809	75,074	6,136	6,617

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30,	2021
	RMB'000	RMB'000	RMB'000	2020	2021
				RMB'000	RMB'000
				<i>(Unaudited)</i>	
At the beginning of the year/period					
	8,978	23,809	75,074	75,074	6,136
Additions	22,000	449,000	65,000	60,000	–
Disposal	(5,977)	(399,309)	(125,231)	(123,211)	–
Change in fair value through profit or loss	(1,192)	1,574	(8,707)	228	481
At the end of the year/period	23,809	75,074	6,136	12,091	6,617

18C DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging accounting criteria, they are classified as ‘held for trading’ for accounting purposes and are accounted for at fair value through profit or loss below. The Group has the following derivative financial instruments:

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30,	2021
	RMB'000	RMB'000	RMB'000	2020	2021
				RMB'000	RMB'000
				<i>(Unaudited)</i>	
Current assets					
Foreign currency forwards – held for trading	–	–	–	–	760
Total current derivative financial instrument liabilities	–	–	–	–	760

For information about the methods and assumptions used in determining the fair value of derivatives please refer to note 3.3. The following amounts were recognised in profit or loss in relation to derivatives:

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30,	2021
	RMB'000	RMB'000	RMB'000	2020	2021
				RMB'000	RMB'000
				<i>(Unaudited)</i>	
Net gain on foreign currency forwards not qualifying as hedges included in other (losses)/gains, net	–	–	–	–	760

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19 TRADE RECEIVABLES

The detail information of trade receivables during Track Record Period is as below:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Trade receivables				
– Third party debtors	42,044	37,386	47,171	39,244
– Related parties	1,596	329	50	50
Total trade receivables, gross	43,640	37,715	47,221	39,294
Less: Loss allowance	(2,241)	(2,539)	(424)	(1,049)
Total trade receivables, net	41,399	35,176	46,797	38,245

The ageing analysis of trade receivables based on invoice date is as follows:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
0 to 30 days	29,487	31,758	41,161	35,747
31 to 60 days	964	2,616	1,693	263
61 to 90 days	343	12	883	131
91 to 180 days	835	668	1,589	7
Over 180 days	12,011	2,661	1,895	3,146
Less: Loss allowance	(2,241)	(2,539)	(424)	(1,049)
Trade receivables, net	41,399	35,176	46,797	38,245

The carrying values of the Group’s trade receivables approximately their fair values. All trade receivables are either repayable within one year or on demand. The Group generally grants credit terms of 0 to 30 days to its customers. The Group applies the IFRS9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Movements of loss allowance for trade receivables are as follows:

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	1,359	2,241	2,539	2,539	424
Increase in loss allowance recognized in profit or loss during the year/period	882	731	2,503	250	625
Reversal of loss allowance recognized in prior year	–	(57)	(2,249)	(2,249)	–
Write-off	–	(376)	(2,369)	(136)	–
At the end of the year/period	2,241	2,539	424	404	1,049

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The Group’s credit risk management is disclosed in Note 3.1(b) to the consolidated financial statements.

The carrying amounts of trade receivables are denominated in the following currencies:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB’000	RMB’000	RMB’000	2021
				RMB’000
RMB	41,399	35,176	46,765	37,810
US\$	–	–	32	435
	<u>41,399</u>	<u>35,176</u>	<u>46,797</u>	<u>38,245</u>

20 PREPAYMENTS AND OTHER ASSETS

The detail information of prepayments and other assets during Track Record Period is as below:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB’000	RMB’000	RMB’000	2021
				RMB’000
Prepaid marketing and promotion expenses	8,844	16,286	17,910	24,546
Prepaid revenue sharing fee	19,346	15,308	7,218	8,155
Prepaid bandwidth cost	1,360	2,610	2,104	2,364
Prepaid technical service fee	1,951	2,210	9,696	7,957
Other prepaid expenses	1,029	2,068	3,102	3,508
Total current prepayments	<u>32,530</u>	<u>38,482</u>	<u>40,030</u>	<u>46,530</u>
Prepaid staff cost	–	–	7,043	–
Prepaid acquisition cost of intangible assets	–	5,300	1,000	1,000
Total non-current prepayments	<u>–</u>	<u>5,300</u>	<u>8,043</u>	<u>1,000</u>
Total prepayments	<u>32,530</u>	<u>43,782</u>	<u>48,073</u>	<u>47,530</u>
Loan receivables (<i>Note</i>)	–	12,426	18,996	15,109
Input value added tax recoverable	723	4,019	15,850	18,787
Deposits	491	4,852	6,784	14,257
Other receivables	8,997	1,729	3,360	14,023
Total other assets	<u>10,211</u>	<u>23,026</u>	<u>44,990</u>	<u>62,176</u>
Less: credit loss allowances	<u>(57)</u>	<u>(206)</u>	<u>(5,288)</u>	<u>(15,109)</u>
Total other assets, net of credit loss allowances	<u>10,154</u>	<u>22,820</u>	<u>39,702</u>	<u>47,067</u>

Note: The balance represented the loan receivables with interest bearing of 8% to 12% p.a. As at the period ended June 30, 2021, the balance was overdue and the management expected that the whole amount cannot be recoverable. The amount was fully impaired as at June 30, 2021.

Total other assets of the Group are mainly denominated in RMB.

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21 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
Cash at bank	41,162	78,310	629,319	762,528
Time deposits with maturities of within three months	–	–	–	32,301
	<u>41,162</u>	<u>78,310</u>	<u>629,319</u>	<u>794,829</u>

Cash and cash equivalents are denominated in the following currencies:

The Group

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
RMB	41,162	78,310	137,142	250,204
US\$	–	–	492,166	512,187
HKD	–	–	–	135
SGD	–	–	11	2
	<u>41,162</u>	<u>78,310</u>	<u>629,319</u>	<u>762,528</u>

Time deposits of the Group are denominated in US\$. The effective interest rate for the time deposits with maturities within three months was 0.67% per annum for the six months ended June 30, 2021.

The Company

	As of December 31,		As of June 30,
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
US\$	–	339,122	347,651
HKD	–	–	2
	<u>–</u>	<u>339,122</u>	<u>347,653</u>

(b) Restricted cash

Restricted cash of the Group is denominated in RMB. As of June 30, 2021, restricted cash of approximately RMB2,452,000 was held at bank as a restricted deposit in relation to forward contracts of the Group.

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22 SHARE CAPITAL

Authorized:

	Number of ordinary shares	Nominal value of ordinary shares <i>US\$'000</i>	Number of Preferred Shares	Nominal value of Preferred Shares <i>US\$'000</i>
At January 1, 2018 and December 31, 2018	–	–	–	–
Ordinary shares of US\$0.0001 each	500,000,000	50	–	–
At December 31, 2019	500,000,000	50	–	–
Issuance of Series Angel Preferred Shares of US\$0.0001 each	(28,163,933)	(3)	28,163,933	3
Issuance of Series A Preferred Shares of US\$0.0001 each	(23,386,682)	(2)	23,386,682	2
Issuance of Series B Preferred Shares of US\$0.0001 each	(12,992,601)	(1)	12,992,601	1
Issuance of Series B+ Preferred Shares of US\$0.0001 each	(5,197,041)	(1)	5,197,041	1
At December 31, 2020	430,259,743	43	69,740,257	7
Issuance of Series C Preferred Shares of US\$0.0001 each	(9,631,022)	(1)	9,631,022	1
At June 30, 2021	<u>420,628,721</u>	<u>42</u>	<u>79,371,279</u>	<u>8</u>

Movements of ordinary shares issued and fully paid:

	<i>Note</i>	Number of shares	Nominal value of shares <i>US\$'000</i>	Equivalent nominal value of shares <i>RMB'000</i>
At January 1, 2018 and December 31, 2018		–	–	–
Issuance of ordinary shares	<i>(i)</i>	1	–	–
At December 31, 2019		1	–	–
Issuance of ordinary shares	<i>(i)</i>	72,302,625	6	47
At December 31, 2020		72,302,626	6	47
Issuance of ordinary shares as consideration for acquisition of subsidiaries	<i>(i)</i>	3,274,795	–	2
Re-designation of ordinary shares to Series C Preferred Shares	<i>(ii)</i>	(2,828,336)	–	(2)
At June 30, 2021		<u>72,749,085</u>	<u>6</u>	<u>47</u>

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(i) Ordinary shares

As of May 29, 2019 and December 31, 2019, the Company authorized 500,000,000 ordinary shares of par value US\$0.0001. 1 ordinary share was issued at par value.

On November 11, 2020, 55,243,376 ordinary shares were issued for a consideration of US\$5,000 (equivalent to approximately RMB36,000).

On December 10, 2020, 17,059,249 ordinary shares were issued for a consideration of US\$2,000 (equivalent to approximately RMB11,000).

On December 28, 2020, 5,197,040 ordinary shares were repurchased from shareholders controlled by key management at a consideration of US\$16,000,000 (equivalent to approximately RMB104,398,000).

On February 7, 2021, 2,589,255 ordinary shares were repurchased from a shareholder controlled by key management at a consideration of approximately US\$3,080,000 (equivalent to approximately RMB19,929,000).

On April 21, 2021, 3,274,795 ordinary shares were issued for acquisition of a group of subsidiaries. See Note 32(b) for details.

On June 15, 2021, 2,828,336 ordinary shares were re-designated into Series C Preferred Shares. See Note 22(ii) for details.

(ii) Re-designation of ordinary shares into Series C Preferred Shares

Under the Shares Purchase Agreement dated June 15, 2021 (the “Agreement”), Funplus (BVI) Limited, wholly-owned subsidiary of Mr. Song Ke, shall sell a total of 2,828,336 ordinary shares to a Series-C preferred shareholder of the Company. Subject to the terms and conditions of Agreement, each ordinary share to be purchased and sold shall, concurrently with the closing, be reclassified and designated into one (1) Series C Preferred Shares. The re-designation of ordinary shares to Preferred Shares was accounted for as deemed repurchase of ordinary shares and deemed issuance of Series C Preferred Shares. The fair value difference between ordinary shares and preferred shares mentioned above of approximately RMB69,316,000 was recognized as share-based compensation.

23 OTHER RESERVES

The following table shows a breakdown of the balance sheet line item ‘other reserves’ and the movements in these reserves during the year/period. A description of the nature and purpose of each reserve is provided below the table.

The Group

	Capital reserve	Share-based compensation	Currency translation differences	Fair value change reserve	Statutory reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(Note a) RMB'000</i>	<i>RMB'000</i>	<i>(Note b) RMB'000</i>	<i>RMB'000</i>
As of January 1, 2018	99,438	41,137	–	–	–	140,575
Share-based compensation	–	39,339	–	–	–	39,339
As of December 31, 2018	99,438	80,476	–	–	–	179,914
Share-based compensation	–	10,824	–	–	–	10,824
Appropriations to statutory reserves	–	–	–	–	5,327	5,327

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	Capital reserve <i>RMB'000</i>	Share-based compensation <i>RMB'000</i>	Currency translation differences <i>(Note a)</i> <i>RMB'000</i>	Fair value change reserve <i>RMB'000</i>	Statutory reserve <i>(Note b)</i> <i>RMB'000</i>	Total <i>RMB'000</i>
As of December 31, 2019	99,438	91,300	–	–	5,327	196,065
Share-based compensation	–	95,829	–	–	–	95,829
Change in fair value attributable to credit risk change	–	–	–	3,649	–	3,649
Deemed contribution from shareholders <i>(Note 25)</i>	34,365	–	–	–	–	34,365
Re-designation of ordinary shares into Series Angel preferred shares	(198,591)	–	–	–	–	(198,591)
Repurchase of ordinary shares	(104,398)	–	–	–	–	(104,398)
Currency translation differences	–	–	8,714	–	–	8,714
Appropriations to statutory reserves	–	–	–	–	987	987
As of December 31, 2020	<u>(169,186)</u>	<u>187,129</u>	<u>8,714</u>	<u>3,649</u>	<u>6,314</u>	<u>36,620</u>
(Unaudited)						
As of January 1, 2020	99,438	91,300	–	–	5,327	196,065
Share-based compensation	–	36,325	–	–	–	36,325
Change in fair value attributable to credit risk change	–	–	–	(158)	–	(158)
Currency translation differences	–	–	(153)	–	–	(153)
As of June 30, 2020	<u>99,438</u>	<u>127,625</u>	<u>(153)</u>	<u>(158)</u>	<u>5,327</u>	<u>232,079</u>
As of January 1, 2021	(181,579)	199,522	8,714	3,649	6,314	36,620
Share-based compensation	–	65,648	–	–	–	65,648
Change in fair value attributable to credit risk change	–	–	–	(5,407)	–	(5,407)
Deemed contribution from shareholders <i>(Note 25)</i>	138,546	–	–	–	–	138,546
Contribution from non-controlling interests	1,522	–	–	–	–	1,522
Repurchase of ordinary shares	(19,929)	–	–	–	–	(19,929)
Issuance of ordinary shares in relation to acquisition of subsidiaries	49,864	–	–	–	–	49,864
Re-designation of ordinary shares into Series C preferred shares	(51,549)	–	–	–	–	(51,549)
Currency translation differences	–	–	(19,504)	–	–	(19,504)
As of June 30, 2021	<u>(63,125)</u>	<u>265,170</u>	<u>(10,790)</u>	<u>(1,758)</u>	<u>6,314</u>	<u>195,811</u>

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The Company

	Capital reserve <i>RMB’000</i>	Currency translation differences <i>(Note a)</i> <i>RMB’000</i>	Total <i>RMB’000</i>
As of January 1, 2019	—	—	—
As of December 31, 2019	—	—	—
Share-based compensation	38,554	—	38,554
Change in fair value due to credit risk	3,649	—	3,649
Repurchase of ordinary shares	(104,398)	—	(104,398)
Re-designation of ordinary shares into Series Angel preferred shares	(198,591)	—	(198,591)
Recapitalisation on investment in subsidiaries	1,207,709	—	1,207,709
Currency translation differences	—	8,603	8,603
As of December 31, 2020	<u>946,923</u>	<u>8,603</u>	<u>955,526</u>
As of January 1, 2021	946,923	8,603	955,526
Repurchase of ordinary shares	(19,929)	—	(19,929)
Share-based compensation	65,648	—	65,648
Change in fair value due to credit risk	(5,407)	—	(5,407)
Issuance of ordinary shares in relation to acquisition of subsidiaries	49,864	—	49,864
Re-designation of ordinary shares into Series C preferred shares	(51,549)	—	(51,549)
Currency translation differences	—	(18,465)	(18,465)
As of June 30, 2021	<u>985,550</u>	<u>(9,862)</u>	<u>975,688</u>

Note a: Currency translation difference represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the reporting currency of RMB for the financial statements of the Company and the Group.

Note b: In accordance with the Companies Laws of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory reserve funds and the discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to the discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both the statutory surplus reserve fund and discretionary reserve fund can be capitalised as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly foreign-owned subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made. With approvals obtained from respective boards of directors of these companies, the reserve fund can be used to offset accumulated deficit or to increase capital.

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24 NON-CONTROLLING INTEREST

(a) Non-controlling interest

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarised balance sheet	Guangzhou Qujing Culture Media Ltd			As of
	As of December 31,			June 30,
	2018	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	–	31,580	73,308	–
Current liabilities	–	(23,701)	(305,804)	–
Net current assets/(liabilities)	–	7,879	(232,496)	–
Non-current assets	–	41,924	246,988	–
Net non-current assets	–	41,924	246,988	–
Net assets	–	49,803	14,492	–
Accumulated non-controlling interest	–	2,485	723	–

Summarised statement of comprehensive loss	Guangzhou Qujing Culture Media Ltd				
	Years ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	–	–	13,657	525	–
Loss for the year/period	–	–	(35,312)	(3,587)	–
Total comprehensive loss	–	–	(35,312)	(3,587)	–
Loss allocated to non-controlling interest	–	–	(1,762)	(179)	–

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No dividend has been paid to non-controlling interest during the years ended December 31 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021.

Summarised statement of cash flows	Guangzhou Qujing Culture Media Ltd				
	Years ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Cash flows used in operating activities	–	–	(45,239)	(790)	–
Cash flows used in investing activities	–	–	(176,409)	(38,857)	–
Cash flows generated from financing activities	–	–	226,801	87,382	–
Net increase in cash and cash equivalents	–	–	5,153	47,735	–

(b) Transactions with non-controlling interests

- (i) Allotment of equity interest of Guangzhou Qujing to Zhuhai Jingqu Enterprise Management Limited Partnership (“Zhuhai Jingqu”) for nil consideration and with a fair value of approximately RMB2,485,000. 99% of the shareholding in Zhuhai Jingqu is allotted to the general manager of Guangzhou Qujing and 1% is allotted to a director of the Company. Share-based compensation of approximately RMB2,485,000 was recorded for such allotment during the year ended December 31, 2019.
- (ii) On January 1, 2021, the Group has acquired 4.99% equity interest of Guangzhou Qujing from Zhuhai Jinqi at nil consideration.
- (iii) During the six months ended June 30, 2021, pursuant to the shareholder agreement entered into between the Group and the non-controlling interest shareholder of a subsidiary, the Group and the non-controlling interest shareholder of a subsidiary of the Group would contribute approximately RMB9,133,000 and RMB6,088,000, respectively, in exchange of 70% and 30% equity interest in the subsidiary, respectively. Based on the amount contributed by the Group and the non-controlling interest shareholder, the non-controlling interest had, in effect, contributed more than its share in the subsidiary whereby the additional amount contributed by the non-controlling interest shareholder was accounted for as capital reserve to the Group.

25 DIVIDENDS

For the year ended December 31, 2019, Guangzhou Quwan has declared special dividends of approximately RMB69,360,000.

As part of the Reorganisation and in August 2020, Guangzhou Quwan has declared special dividends of approximately RMB112,000,000 relating to the retained earnings of Guangzhou Quwan prior to the Reorganisation. During the year ended December 31, 2020, the shareholders of Guangzhou Quwan collectively, with the exception of Wenzhou Huanqu Business Management Limited Partnership, a partnership controlled by Mr. Song Ke, agreed to forfeit their entitlements of such dividend and transferred such entitlements to Wenzhou Huanqu Business Management Limited Partnership. Accordingly, the difference between the amount entitled by Wenzhou Huanqu Business Management Limited Partnership and the amount received by Wenzhou Huanqu Business Management Limited Partnership amounted to approximately RMB34,365,000 was recorded as capital contribution from other shareholders and wages, salaries and bonuses to Mr. Song Ke for his services.

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As part of the Reorganisation and in November 2020, shareholders of the Guangzhou Quwan agreed to declare special dividends of approximately RMB230,000,000 in the future, relating to the retained earnings of Guangzhou Quwan prior to the Reorganisation. During the six months ended June 30, 2021, in April 2021 Guangzhou Quwan declared and paid such special dividends of approximately RMB230,000,000 to its shareholders relating to the retained earnings of Guangzhou Quwan prior to the Reorganisation. For the dividend declared in April 2021, which the then shareholders of Guangzhou Quwan collectively, with the exception of Linxia Shouqu Management Limited Partnership, a partnership controlled by management of the Company, agreed to forfeit their entitlements of such dividend and transferred such entitlements to Linxia Shouqu Management Limited Partnership. Accordingly, the difference between the amount entitled by Linxia Shouqu Management Limited Partnership and the amount received by Linxia Shouqu Management Limited Partnership amounted to approximately RMB138,546,000 was recorded as capital contribution from other shareholders and wages, salaries and bonuses to management for their services.

No dividends have been paid or declared by the Company during each of the years ended December 31, 2018 and the six months ended June 30, 2020.

26 SHARE-BASED COMPENSATION

(a) Share option plan

2015 PRC Incentive Plan

In 2015, Guangzhou Quwan adopted the 2015 Share Incentive Plan (“the 2015 PRC Plan”). Under the 2015 PRC Plan, Guangzhou Quwan granted a total of 404,088 share based awards, representing the corresponding amount of equity interests of Guangzhou Quwan to certain of its officers and employees. Guangzhou Quwan’s 2015 PRC Incentive Plan provides for the grant of incentive share options to Guangzhou Quwan’s employees, officers and directors. Guangzhou Quwan’s board of directors administers the 2015 PRC Incentive Plan, selects the individuals to whom options will be granted, determines the number of options to be granted, and the term and exercise price of each option.

2020 Global Employee Incentive Plan

The Company adopted the 2020 Global Employee Incentive Plan (“the 2020 Plan”) in December 2020. The purpose of the 2020 Plan was to aid the Company and its subsidiaries in recruiting and retaining key employees, directors or consultant of outstanding ability and to motivate such employees, directors, or consultants to exert their best efforts on behalf of the Company and its subsidiaries by providing incentives through the granting of awards.

Share options granted to employee

2015 PRC Incentive Plan

The 2015 PRC Plan provided for the grant of incentive share options to the Group’s employees, officers or directors. Guangzhou Quwan’s board of directors administered the 2015 PRC Plan, selected the individuals to whom options will be granted, determined the number of options to be granted, and the term and exercise price of each option. During the track record period, Guangzhou Quwan granted share options to employees, officers and directors of the Group. These options were granted with exercise prices denominated in the RMB, which is the functional currency of Guangzhou Quwan. The table below sets forth information regarding share options granted during the track record period:

Grant Date	Number of options	Term (year)	Vesting period (year)	Exercise price at grant date (RMB)
January 1, 2018	15,500	10.00	0.00	1.0000
January 1, 2018	6,100	10.00	4.00	0.0007
January 1, 2019	9,103	10.00	0.00	1.0000
July 1, 2019	4,000	10.00	0.00	1.0000
January 1, 2020	2,841	10.00	0.00	1.0000
January 1, 2020	5,327	10.00	4.00	0.0007
July 1, 2020	13,714	10.00	0.00	1.0000

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All of the share options with vesting periods granted with Guangzhou Quwan’s ordinary shares as at December 31, 2020 are cancelled and replaced by the share options granted with the Company’s ordinary shares in January and February 2021 under the 2020 Plan.

All share-based payments to employees are measured based on their grant-date fair values. Compensation expense is recognized based on the vesting schedule over the requisite service period. Total fair values of options vested and recognized as expenses under the 2015 PRC Plan for the years ended December 31, 2018, 2019 and 2020, and the six months ended June 30, 2020 and 2021 were approximately RMB2,790,000, RMB1,584,000, RMB1,516,000 RMB365,000 and RMB nil, respectively.

Grant of options

During the years ended December 31, 2018, 2019 and 2020, and the six months ended June 30, 2020 and 2021, Guangzhou Quwan granted 21,600, 13,103, 21,882, 8,168 and nil share options under 2015 PRC Plan to employees, respectively.

Vesting of options

There are mainly two types of vesting schedule, which are: i) 25% of the options will be vested after 12 months of the grant date, 25% of the options will be vested after 24 months of the grant date, 25% of the options will be vested after 36 months of the grant date and the remaining 25% will be vested after 48 months of the grant date, and ii) options will be vested immediately on the grant date.

Movements in the number of 2015 PRC Plan share options granted and their related weighted average exercise prices are as follows:

	Number of share options	Weighted average exercise price per share option RMB
Outstanding as of January 1, 2018	347,503	0.41
Granted during the year	21,600	0.72
	<hr/>	<hr/>
Outstanding as of December 31, 2018	369,103	0.39
	<hr/>	<hr/>
Exercisable as of December 31, 2018	320,706	0.41
Outstanding as of January 1, 2019	369,103	0.39
Granted during the year	13,103	1.00
	<hr/>	<hr/>
Outstanding as of December 31, 2019	382,206	0.41
	<hr/>	<hr/>
Exercisable as of December 31, 2019	373,148	0.42
Outstanding as of January 1, 2020	382,206	0.42
Granted during the year	21,882	0.76
	<hr/>	<hr/>
Outstanding as of December 31, 2020	404,088	0.43
	<hr/>	<hr/>
Exercisable as of December 31, 2020 (Unaudited)	398,567	0.44
Outstanding as of January 1, 2020	382,206	0.42
Granted during the period	8,168	0.35
	<hr/>	<hr/>
Outstanding as of June 30, 2020	390,374	0.41
	<hr/>	<hr/>

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	Number of share options	Weighted average exercise price per share option <i>RMB</i>
Exercisable as of June 30, 2020	381,675	0.42
Outstanding as of January 1, 2021	404,088	0.43
Cancelled during the period	(404,088)	0.43
	<hr/>	<hr/>
Outstanding as of June 30, 2021	–	–
	<hr/>	<hr/>
Exercisable as of June 30, 2021	–	–
	<hr/> <hr/>	<hr/> <hr/>

The weighted-average remaining contract life for outstanding share options of the 2015 PRC Plan was 7.13 years, 6.24 years, 5.45 years, 5.81 years and nil years as of December 31, 2018, 2019 and 2020 and June 30, 2020 and 2021, respectively.

Fair value of share options

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted the equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as the discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial model to determine the fair value of the share option under the 2015 PRC Plan as of the grant date. Key assumptions are set as below:

	Year ended December 31,			Six months ended June 30,		
	2018	2019	2020	2020	2021	
				<i>(Unaudited)</i>		
Fair value per share <i>(RMB)</i>	48.20 – 49.20	50.23 – 56.56	58.37 – 76.35	58.37 – 59.37		N/A
Exercise price <i>(RMB)</i>	0.0007 – 1	0.0007 – 1	0.0007 – 1	0.0007 – 1		N/A
Risk-free interest rates	3.27% – 3.67%	3.23% – 3.31%	2.85% – 3.14%	3.14%		N/A
Dividend yield	0%	0%	0%	0%		N/A
Expected volatility	46.73% – 48.06%	52.68% – 53.13%	51.65% – 52.94%	51.65%		N/A
Expected terms	10 years	10 years	10 years	10 years		N/A

The weighted-average fair value of granted share options of the 2015 PRC Plan was RMB56.12, RMB55.98, RMB56.74, RMB56.05 and RMBnil per share for the years ended December 31, 2018, 2019 and 2020 and six months ended June 30, 2020 and 2021, respectively.

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2020 Global Employee Incentive Plan

During the six months ended June 30, 2021, the Company granted share options under the 2020 Plan to employees, officers and directors of the Group. These options were granted with exercise prices denominated in the US\$, which is the functional currency of the Company. The table below sets forth information regarding share options granted during the track record period:

Grant Date	Number of options	Term (year)	Vesting period (year)	Exercise price at grant date (US\$)
January 28, 2021 (Note i)	3,449,788	10.00	0.50	0.0001
January 28, 2021 (Note ii)	1,065,393	10.00	4.00	0.0001
January 29, 2021 (Note iii)	1,140,340	10.00	4.00	0.0001
January 30, 2021 (Note iii)	188,524	10.00	4.00	0.0001
January 31, 2021	127,000	10.00	4.00	0.0001
February 1, 2021 (Note iii)	849,985	10.00	4.00	0.0001
February 2, 2021	4,000	10.00	4.00	0.0001
February 3, 2021	50,527	10.00	4.00	0.0001
February 4, 2021	1,514,937	10.00	0.00	0.0001
April 1, 2021	1,872,303	10.00	4.00	0.0001
May 17, 2021	214,381	10.00	0.00	0.0001

Notes:

- (i) 229,427 share options with vesting periods granted with Guangzhou Quwan’s ordinary shares under the 2015 PRC Plan as at December 31, 2020 are replaced by the share options, totally 2,294,270 granted under the 2020 Plan with the Company’s ordinary shares in January and February 2021. There are no changes in terms except for exercise price changed from RMB0.0007 into US\$0.0001. There was no significant incremental increase in fair value of the share options awarded arising from the replacement.
- (ii) 174,661 share options with no vesting periods granted with Guangzhou Quwan’s ordinary shares under the 2015 PRC Plan as at December 31, 2020 are replaced by the share options, totally 1,746,610 granted under the 2020 Plan with the Company’s ordinary shares in January and February 2021. There are no changes in terms except for exercise price changed from RMB1 into US\$0.0001. There was no significant incremental increase in fair value of the share options awarded arising from the replacement.
- (iii) All share-based payments to employees are measured based on their grant-date fair values. Compensation expense is recognized based on the vesting schedule over the requisite service period. Total fair values of options vested and recognized as expenses under the 2020 Plan for the six months ended June 30, 2021 were approximately RMB65,648,000.

Grant of options

During the six months ended June 30, 2021, the Company granted 10,477,178 share options under the 2020 Plan to employees.

Vesting of options

There are mainly three types of vesting schedule for the 2020 plan, which are: i) 25% of the options will be vested after 12 months of the grant date, 25% of the options will be vested after 24 months of the grant date, 25% of the options will be vested after 36 months of the grant date and the remaining 25% will be vested after 48 months of the grant date, ii) options will be fully vested after 6 months of the grant date, and iii) options will be vested immediately on the grant date.

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Movements in the number of share options granted to the employees, officers, and directors of the Group and their related weighted average exercise prices under the 2020 PRC Incentive Plan are as follow:

	Number of share options	Weighted average exercise price per share option US\$
Outstanding as of January 1, 2018, December 31, 2018, 2019 and 2020, and January 1, 2021	–	–
Granted during the period	10,477,178	0.0001
Outstanding as of June 30, 2021	10,477,178	0.0001
Exercisable as of June 30, 2021	2,794,711	0.0001

The weighted-average remaining contract life for outstanding share options of the 2020 plan was 9.6 year as of June 30, 2021.

Fair value of share options

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted the equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as the discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial model to determine the fair value of the share option under the 2020 plan as of the grant date. Key assumptions are set as below:

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
				<i>(Unaudited)</i>	
Fair value per share (RMB)	N/A	N/A	N/A	N/A	12.24 – 18.22
Exercise price (US\$)	N/A	N/A	N/A	N/A	0.0001
Risk-free interest rates	N/A	N/A	N/A	N/A	0.50% – 1.34%
Dividend yield	N/A	N/A	N/A	N/A	0%
Expected volatility	N/A	N/A	N/A	N/A	51.34% – 52.58%
Expected terms	N/A	N/A	N/A	N/A	10 years

The weighted-average fair value of granted share options was RMB13.39 per share for the six months ended June 30, 2021.

During the years ended December 31, 2018, 2019 and 2020, and the six months ended June 30, 2020 and 2021, there were approximately RMB2,790,000, RMB1,584,000, RMB1,516,000, RMB365,000 and RMB65,648,000 share-based compensation recognised for all share options issued by the Group, respectively.

(b) Allotment of equity interest of a subsidiary to employee

On December 31, 2019, the Company allotted 4.99% equity interest of Guangzhou Qijing to Zhuhai Jingqu Enterprise Management Limited Partnership (“Zhuhai Jingqu”) for nil consideration and with a fair value of approximately RMB2,485,000. 99% of the shareholding in Zhuhai Jingqu is allotted to the general manager of Guangzhou Qijing and 1% is allotted to a director of the Company. Share based compensation of approximately RMB2,485,000 was recorded for such allotment during the year ended December 31, 2019.

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(c) Share-based compensation from repurchase of ordinary shares indirectly held by key management

During the year ended December 31, 2020, the Company repurchased certain equity interest indirectly held by certain shareholders of the Company who are also acting as key management of the Group at a consideration of approximately RMB104,398,000, before withholding tax. The difference between the consideration paid by the Company and the fair value of the equity interests being repurchased amounted to approximately RMB50,947,000 which was being recognized as expenses for the year ended December 31, 2020. As of December 31, 2020, an outstanding consideration of approximately RMB35,234,000 was recognized under amount due to related parties. The balance has been repaid during the six months ended June 30, 2021.

(d) Share-based compensation from other equity transactions between shareholders

During the years ended December 31, 2018, 2019 and 2020, and the six months ended June 30, 2020 and 2021, there were approximately RMB36,548,000, RMB6,755,000, RMB43,366,000, RMB35,960,000 and RMBnil share-based compensation, arising from other shareholder transactions between shareholders being recognized as expenses, respectively.

(e) Share-based compensation from re-designation of series C preferred shares

During the six months ended June 30, 2021, there was approximately RMB69,316,000 share-based compensation recognised for the re-designation of ordinary shares into series C preferred shares. Please refer to note 22(ii) for details.

(f) Share-based compensation from re-designation of series Angel preferred share

During the year ended December 31, 2020, there was approximately RMB12,393,000 share-based compensation recognised for the re-designation of ordinary shares of Guangzhou Quwan into Company’s series A preferred shares upon reorganisation.

The share-based compensation have been charged to the consolidated statement of comprehensive loss for the Track Record Period as follows:

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Cost of revenues	190	102	45	42	849
Selling and marketing expenses	523	2,990	172	86	3,850
Administrative expenses	36,607	7,082	107,533	35,960	111,242
Research and development expenses	2,019	650	472	237	19,023
Total	<u>39,339</u>	<u>10,824</u>	<u>108,222</u>	<u>36,325</u>	<u>134,964</u>

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27 ACCOUNTS AND OTHER PAYABLES

The Group

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2021</i> <i>RMB'000</i>
Current liabilities				
Trade payables				
– Third party creditors	108,956	111,775	116,446	144,903
– Related parties	5,065	1,189	97	7
	<u>114,021</u>	<u>112,964</u>	<u>116,543</u>	<u>144,910</u>
Acquisition costs payable for e-Sports licenses and contracts	–	21,000	40,000	–
E-Sports licenses fee payables	–	–	16,000	16,000
Acquisition cost payable for an associate	–	–	–	20,000
Marketing and promotion fee payables	2,316	4,415	46,145	93,032
Employee benefits payables	21,288	32,758	46,580	53,230
Other taxes payables	323	9,241	23,717	15,984
Others	3,279	8,549	12,478	20,362
	<u>27,206</u>	<u>75,963</u>	<u>184,920</u>	<u>218,608</u>
Total other payables	<u>27,206</u>	<u>75,963</u>	<u>184,920</u>	<u>218,608</u>
Total accounts and other payables	<u>141,227</u>	<u>188,927</u>	<u>301,463</u>	<u>363,518</u>

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Trade and other payables of the Group are mainly denominated in RMB.

Accounts payables and their aging analysis based on invoice date are as follows:

	As of December 31,			As of
	2018	2019	2020	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2021</i> <i>RMB'000</i>
Up to 3 months	95,990	106,127	113,064	141,915
3 to 6 months	10,597	5,027	2,069	800
6 months to 1 year	7,434	1,810	1,410	2,195
Over 1 year	–	–	–	–
	<u>114,021</u>	<u>112,964</u>	<u>116,543</u>	<u>144,910</u>

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The Company

	As of December 31,		As of June 30,
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
Current liabilities			
Other taxes payables	–	10,440	4,322
Others	–	–	3,443
	<u>–</u>	<u>–</u>	<u>3,443</u>
Total other payables	<u>–</u>	<u>10,440</u>	<u>7,765</u>

Other payables of the Company are mainly denominated in RMB.

28 BORROWINGS

The breakdown of other payables and accruals are as follows:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
<i>Current and secured</i>				
Bank loan (Note)	–	–	46,500	–
<i>Current and unsecured</i>				
Bank loans (Note)	–	–	80,000	–
	<u>–</u>	<u>–</u>	<u>80,000</u>	<u>–</u>
Total borrowings	<u>–</u>	<u>–</u>	<u>126,500</u>	<u>–</u>

Note:

The effective interest rate of these borrowings is 4.00% to 4.85% per annum.

Certain of the Group’s banking facilities are subject to the fulfillment of covenants relating to a subsidiary’s statement of financial position performance and results, as are commonly found in lending arrangements with financial institutions, including minimum current ratio, minimum debt to asset ratio, minimum assets to guarantee ratio, cap on borrowing from financial institutions and cap on acceptable decline in revenue and net profit. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these financial covenants. As of December 31, 2020, certain financial covenants (cap on acceptable decline in profit) as set out in these banking facilities have been breached. The relevant subsidiary has repaid the borrowing in April 2021. As of December 31, 2020, a building of the Group is pledged as collateral under a term loan with a principal amount of approximately RMB46,500,000. Corporate guarantee of a subsidiary is provided as pledged to secure obligations under this term loan.

As of December 31, 2020, personal guarantee by the director, Mr. Song Ke, was provided to all bank borrowings of the Group.

The carrying values of the borrowings approximate their fair value as of December 31, 2020. The interest rates under the loan agreements with the banks were determined based on the prevailing interest rates in the market. The Group classifies the valuation techniques that use these inputs as Level II.

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29 CONTRACT LIABILITIES

The breakdown of contract liabilities are as follows:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Contract liabilities for value added services and audio entertainment	2,745	7,799	51,495	66,624
Contract liabilities from game and other	5,767	7,973	6,462	2,822
	<u>8,512</u>	<u>15,772</u>	<u>57,957</u>	<u>69,446</u>

The above mentioned contract liabilities represented the contract liability in connection with the advances for the purchase of virtual items and advanced cash receipt for services including online marketing services and others. Revenue recognized from the contract liabilities for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2021 was approximately RMB16,880,000, RMB8,512,000, RMB15,772,000 and RMB57,957,000, respectively.

30 DEFERRED INCOME TAX

The movements on the deferred tax assets are as follows:

	Provision for loss allowance	Lease	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2018	340	–	–	340
Credited to consolidated income statements	<u>510</u>	<u>437</u>	<u>–</u>	<u>947</u>
At December 31, 2018	850	437	–	1,287
Credited to consolidated income statements	<u>436</u>	<u>92</u>	<u>760</u>	<u>1,288</u>
At December 31, 2019	1,286	529	760	2,575
Credited/(debited) to consolidated income statements	<u>1,672</u>	<u>147</u>	<u>(170)</u>	<u>1,649</u>
At December 31, 2020	<u>2,958</u>	<u>676</u>	<u>590</u>	<u>4,224</u>
(Unaudited)				
At January 1, 2020	1,286	529	760	2,575
Credited/(debited) to consolidated income statements	<u>2,365</u>	<u>173</u>	<u>(188)</u>	<u>2,350</u>
At June 30, 2020	<u>3,651</u>	<u>702</u>	<u>572</u>	<u>4,925</u>
At January 1, 2021	2,958	676	590	4,224
Credited/(debited) to consolidated income statements	<u>1,082</u>	<u>(36)</u>	<u>(196)</u>	<u>850</u>
At June 30, 2021	<u>4,040</u>	<u>640</u>	<u>394</u>	<u>5,074</u>

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Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The unrecognized deferred tax assets for tax losses as of December 31, 2018, 2019, 2020 and June 30, 2021 are as the table below:

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Expiry date in:				
2019	–	–	–	–
2020	83	–	–	–
2021	1,881	83	–	–
2022	5,796	1,881	2,743	2,743
2023	34,710	5,796	13,853	13,853
2024	–	34,519	13,517	13,517
2025	–	21,095	53,771	58,927
2026	–	–	–	16,359
No expiry dates	–	–	1,898	18,657
	<u>42,470</u>	<u>63,374</u>	<u>85,782</u>	<u>124,056</u>

Deferred tax liabilities:

	Acquired intangible assets Total RMB'000
At January 1, 2018, December 31, 2018, 2019 and 2020	<u>–</u>
(Unaudited)	
At January 1, 2020 and June 30, 2020	<u>–</u>
At January 1, 2021	–
Business combination	5,705
Debited/(credited) to consolidated income statement	(225)
At June 30, 2021	<u>5,480</u>

During the Track Record Period, no deferred income tax have been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC based on the profits for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 as subsidiaries in the PRC has not distributable earnings. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and the directors have confirmed that such earnings will not be distributed out of the PRC in the foreseeable future.

31 CONVERTIBLE NOTE

On April 22, 2020, the Group issued convertible note with a coupon rate of 8% per annum at a total principal amount of approximately US\$25,000,000. The convertible bond has a maturity date of 180 days from the issue date. The conversion period covers the period commencing on the date of issue of the convertible bond ending on the maturity date. The conversion price is calculated by US\$215,000,000 divided by the total number of outstanding shares of the Company immediately prior to the conversion of this convertible note, calculated on a fully diluted basis.

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The conversion features of the convertible bond do not meet the fixed-to-fixed requirement for equity classification. The convertible bond was classified as a financial liability and designated as financial liabilities at fair value through profit or loss.

The convertible note was within Level 3 of the fair value hierarchy. The movements of convertible bond are as follows:

	<i>RMB’000</i>
As at January 1, 2020	
Issuance of convertible note	176,988
Changes in fair value through profit or loss	–
Transfer to consideration of Series A Preferred Shares	(176,988)
	–
As at December 31, 2020	–

	<i>RMB’000</i>
(Unaudited)	
As at January 1, 2020	
Issuance of convertible note	176,988
Changes in fair value through profit or loss	5,613
Change in fair value through other comprehensive income	158
Currency translation difference	151
	182,910
As at June 30, 2020	182,910

32 CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares to investors, namely, series A Preferred Shares, series B Preferred Shares, series B+ Preferred Shares and series C Preferred Shares (collectively referred as the “Preferred Shares”).

The details of the issuance are set out in the table below:

	<i>Note</i>	Date of Issuance	Purchase price (US\$/Share)	Number of shares
Series A Preferred Shares		November 11, 2020	2.02	23,386,682
Series B Preferred Shares		December 10, 2020	3.08	12,992,601
Series B+ Preferred Shares		December 29, 2020	3.85	5,197,041
Series C Preferred Shares		June 15, 2021	6.62	6,802,686
Series C Preferred Shares	22(ii)	June 15, 2021	5.30	2,828,336
				51,207,346
				51,207,346

The key terms of the Preferred Shares are summarised as follows:

(a) Dividends rights

No dividends or other distributions shall be made or declared, whether in cash, in property, or in any other shares of the Company, unless and until dividends have been paid in full on the Preferred Shares. The holders of preferred shares have the right to receive non-cumulative dividends, on an as-converted basis, when, as and if declared by the Board.

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(b) Conversion feature

The Series A, B, B+ and C preferred shares are convertible, at the option of the holders at any time after the original issue date of the relevant series of preferred shares into such number of fully paid and non-assessable ordinary shares. Each preferred share shall also be automatically converted into ordinary shares of the Company at the then effective conversion price upon the closing of a qualified [REDACTED] (“Q[REDACTED]”). For Series A, B and B+ preferred shares, a Q[REDACTED] means the ordinary shares of the Company has been registered under the applicable securities laws with net proceeds to the Company of at least approximately US\$88,000,000 and an implied pre-money valuation of approximately US\$880,000,000. For Series C preferred shares, a Q[REDACTED] means the ordinary shares of the Company has been registered under the applicable securities laws with net proceeds to the Company of at least approximately US\$135,000,000 and an implied pre-money valuation of US\$1.35 billion. No fractional ordinary share shall be issued upon conversion of the preferred shares. In lieu of any fractional ordinary shares to which the holder would otherwise be entitled, the Company shall pay cash equal to such fraction multiplied by the then effective conversion price for any such series of preferred shares.

The number of ordinary shares of the Company to which a holder shall be entitled upon conversion of any preferred share shall be the quotient of the applicable original issue price divided by the then effective applicable conversion price. No adjustment in the conversion price for any series of preferred shares shall be made in respect of the issuance of additional ordinary shares unless the consideration per share for an additional ordinary share issued or deemed to be issued by the Company is less than the conversion price for such series in effect on the date of and immediately prior to such issuance. Further, adjustments of conversion ratios may arise from share dividend, subdivision, combinations or consolidation of ordinary shares of the Company, other distribution, reclassification, exchange and substitution.

(c) Voting rights

The holders of Preferred Shares are entitled the right to the number of votes equal to the number of ordinary shares into which Preferred Shares could be converted at the record date for determination of the members entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of members is solicited, such votes to be counted together with all other shares of the Company having general voting power and not counted separately as a class. Holders of the ordinary shares and preferred shares shall be entitled to notice of any members’ meeting in accordance with these articles, and except as otherwise set forth in these articles, shall vote together and not as separate classes.

(d) Redemption feature

Redemption shall occur upon (i) material breach by the Group or the key parties as defined in the agreement; (ii) material breach of the restructuring agreement or any material adverse change in the regulatory environment; (iii) failure of completing a Q[REDACTED] within 4 years (For Series C preferred shares: 3 years) from the issuance of the preferred shares; (iv) the principal business taken as a whole is suspend or terminated; (v) the occurrence of any non-compliance with the applicable laws, regulations, rules or policies which may result in material adverse effect to the Group; (vi) non-compliance and/or claim in connection with the prior restructuring; (vii) occurrence of any dishonest, fraud on the Group of any key party as defined in the agreement; and (viii) any other holder of preferred shares requests redemption of all or any part of the outstanding preferred shares held by such holder. Since the event (viii) is triggered by the occurrence of events (i) to (vii), the management expects that the events (i) to (vii) are not likely to occur in the foreseeable future, and therefore the event (viii) is considered not likely to occur in the foreseeable future. The number of ordinary shares of the Company to which a holder shall be entitled upon conversion of any preferred share shall be the quotient of the applicable original issue price divided by the then effective applicable conversion price. No adjustment in the conversion price for any series of preferred shares shall be made in respect of the issuance of additional ordinary shares unless the consideration per share for an additional ordinary share issued or deemed to be issued by the Company is less than the conversion price for such series in effect on the date of and immediately prior to such issuance. Further, adjustments of conversion ratios may arise from share dividend, subdivision, combinations or consolidation of ordinary shares of the Company, other distribution, reclassification, exchange and substitution.

(e) Liquidation rights

Upon the occurrence of any liquidation event, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution shall be distributed to the shareholders in the following order:

- (1) First, each holder of Series C preferred shares shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series C Liquidation Preference Amount”).

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- (2) Second, after setting aside or paying in full the Series C Liquidation Preference Amount, each other of Series B+ preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series B+ Liquidation Preference Amount”).
- (3) Thirdly, after setting aside or paying in full the Series C Liquidation Preference Amount and Series B+ Liquidation Preference Amount, each other of Series B preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series B Liquidation Preference Amount”).
- (4) Fourthly, after setting aside or paying in full the Series C Liquidation preference Amount, Series B+ Liquidation Preference Amount and Series B Liquidation Preference Amount, each other of Series A preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series A Liquidation Preference Amount”).

The movements of the convertible redeemable preferred shares are set out as below:

	<i>RMB’000</i>
At January 1, 2018, December 31, 2018 and 2019	–
At January 1, 2020	–
Issuance of Series A, B and B+ Preferred Shares	699,437
Change in fair value	53,075
Includes: change in fair value due to own credit risk	(3,649)
Currency translation differences	(2,670)
At December 31, 2020	746,193
(Unaudited)	
At January 1, 2020 and June 30, 2020	–
At January 1, 2021	746,193
Issuance of Series C Preferred shares	290,703
Re-designation of Series C Preferred Shares from ordinary shares (<i>Note 22</i>)	120,865
Change in fair value	394,756
Includes: change in fair value due to own credit risk	5,407
Currency translation differences	7,641
At June 30, 2021	1,565,565

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions are set as below:

	As of December 31,			As of June 30,	
	2018	2019	2020	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Discount rate	N/A	N/A	16%	N/A	16%
Risk-free interest rate	N/A	N/A	3%	N/A	3%
DLOM	N/A	N/A	20%	N/A	20%
Volatility	N/A	N/A	49%	N/A	52%

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Discount rate (post-tax) were determined considering the risk-free rate, industry-average correlated relative volatility coefficient, or beta, equity risk premium, country risk premium, size of our company, scale of business and ability in achieving forecast projections. Five publicly traded companies in the U.S. and one publicly traded company in Hong Kong were selected for reference as the guideline companies in determining the discount rate. The DLOM was estimated based on the Black-Scholes put option model. Black-Scholes put option model was used because it incorporates certain company-specific factors, including timing of the expected [REDACTED] and the volatility of the share price of the guideline companies. Volatility was estimated based on annualized standard deviation of the daily return embedded in historical stock prices of comparable companies with a time horizon close to the expected term. Probability weight among redemption, liquidation and [REDACTED] scenarios was based on the Company’s best estimates. In addition to the assumptions adopted above, the Company’s projections of future performance were also factored into the determination of the fair value of Preferred Shares on each valuation date.

Changes in fair value of Preferred Shares were recorded in “fair value changes of convertible redeemable preferred shares” in the consolidated income statements, and the fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are recorded in other comprehensive loss.

33 CONVERTIBLE PREFERRED SHARES

The details of the issuance are set out in the table below:

	<i>Note</i>	Date of Issuance	Purchase price (US\$/Share)	Number of shares
Series Angel Preferred Shares	22(iii)	November 11, 2020	0.0001	17,723,079
Series Angel Preferred Shares	22(iii)	March 19, 2021 (<i>Note</i>)	0.0001	10,440,854
				28,163,933

Note:

Series Angel Preferred Shares owned by Dream League Limited (“Dream League”), a subsidiary owned by a few non-managerial shareholders, was agreed to be issued by all shareholders of the Company on 11 November 2020 but subsequently issued on 19 March 2021. The time gap between issuance date and date of recapitalization is caused by the administration time used by relevant non-managerial shareholders to complete the statutory registration required by PRC the State Administration of Taxation in accordance with Announcement No. 7 2015, which require all PRC residents to register their investment in foreign companies which owns equity interests in PRC entities. Given that the Company committed and reserved the Series Angel Preferred Shares to Dream League, the Company believes that Dream League is entitled to legal right authorised by the Series Angel Preferred Shares. These Series Angel Preferred Shares to be issued to Dream League should be credited on November 2020, regardless of whether these Series Angel Preferred Shares certificate has been issued.

The key terms of the Preferred Shares are summarised as follows:

(a) Dividends rights

No dividends or other distributions shall be made or declared, whether in cash, in property, or in any other shares of the Company, unless and until dividends have been paid in full on the convertible preferred shares. The holders of preferred shares have the right to receive non-cumulative dividends, on an as-converted basis, when, as and if declared by the Board.

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(b) Voting rights

The holders of Preferred Shares are entitled the right to the number of votes equal to the number of ordinary shares into which Preferred Shares could be converted at the record date for determination of the members entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of members is solicited, such votes to be counted together with all other shares of the Company having general voting power and not counted separately as a class. Holders of the ordinary shares and preferred shares shall be entitled to notice of any members’ meeting in accordance with these articles, and except as otherwise set forth in these articles, shall vote together and not as separate classes.

(c) Liquidation rights

Upon the occurrence of any liquidation event, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution shall be distributed to the shareholders in the following order:

- (1) First, each holder of Series C preferred shares shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series C Liquidation Preference Amount”).
- (2) Second, after setting aside or paying in full the Series C Liquidation Preference Amount, each other of Series B+ preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series B+ Liquidation Preference Amount”).
- (3) Thirdly, after setting aside or paying in full the Series C Liquidation Preference Amount and Series B+ Liquidation Preference Amount, each other of Series B preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series B Liquidation Preference Amount”).
- (4) Fourthly, after setting aside or paying in full the Series C Liquidation preference Amount, Series B+ Liquidation Preference Amount and Series B Liquidation Preference Amount, each other of Series A preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 150% of the original issue price (“Series A Liquidation Preference Amount”).
- (5) Fifthly, after setting aside or paying in full the Series C Liquidation preference Amount, Series B+ Liquidation Preference Amount, Series B Liquidation Preference Amount and Series A Liquidation Preference Amount, each other of Series Angel preferred share shall be entitled to receive, on parity with each other, an amount per share equal to 100% of the original issue price (“Series Angel Liquidation Preference Amount”).

(d) Compulsory payment upon liquidation event

The subscribers of Preferred Shares have rights to require the Company to distribute compulsory payment to holder of Preferred Shares with preference upon the occurrence of liquidation event, one of it is triggered by the significant changes of shareholder structure of the Company which leads to excess of 50% of the Company’s or any other Group Company’s voting power is transferred. Since the Company do not have any measures to restrict the transfer to equity interests of shareholders, such triggering event is out of the control of the Company, and it means that the Company has the legal obligation to repay all the subscribers of preferred shares at original issue price.

The movements of the convertible preferred shares are set out as below:

	<i>RMB’000</i>
At January 1, 2018, December 31, 2018 and 2019	—
At January 1, 2020	—
Re-designation of Series Angel Preferred Shares from ordinary shares	210,984
Change in fair value	109,649
Currency translation differences	(5,907)
At December 31, 2020	<u>314,726</u>

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RMB’000

(Unaudited)

At January 1, 2020 and June 30, 2020

–

At January 1, 2021

314,726

Change in fair value

324,577

Currency translation differences

2,846

At June 30, 2021

642,149

The Group applied the discount cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the convertible preferred shares. Key assumptions are set as below:

	As of December 31,			As of June 30,	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Discount rate	N/A	N/A	16%	N/A	16%
Risk-free interest rate	N/A	N/A	3%	N/A	3%
DLOM	N/A	N/A	20%	N/A	20%
Volatility	N/A	N/A	49%	N/A	52%

Discount rate (post-tax) was determined considering the risk-free rate, industry-average correlated relative volatility coefficient, or beta, equity risk premium, country risk premium, size of our company, scale of business and ability in achieving forecast projections. Five publicly traded companies in the U.S. and one publicly traded company in Hong Kong were selected for reference as the guideline companies in determining the discount rate. The DLOM was estimated based on the Black-Scholes put option model. Black-Scholes put option model was used because it incorporates certain company-specific factors, including timing of the expected [REDACTED] and the volatility of the share price of the guideline companies. Volatility was estimated based on annualized standard deviation of the daily return embedded in historical stock prices of comparable companies with a time horizon close to the expected term. Probability weight among redemption, liquidation and [REDACTED] scenarios was based on the Company’s best estimates. In addition to the assumptions adopted above, the Company’s projections of future performance were also factored into the determination of the fair value of convertible preferred shares on each valuation date.

Changes in fair value of convertible preferred shares were recorded in “fair value changes of convertible preferred shares” in the consolidated income statements, and the fair value changes in the convertible preferred shares that are attributable to changes of credit risk of this liability are recorded in other comprehensive loss.

34 ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Xiamen Saimailei Technology Co. Ltd.

In December 2019, the Group acquired 100% equity interest of Xiamen Saimailei Technology Co. Ltd. (“XMSML”), a company established in the PRC. XMSML owns the rights and licenses in the Honor of Kings Professional League which is a multiplayer online battle arena game. These rights and licenses entitled the Group to own a permanent tournament participation right in the Honor of Kings Professional League, an official e-Sports League operated by Tencent. The Group expects to increase its online game businesses through the acquisitions these related rights and licenses.

The acquisition was determined to be an asset acquisition as XMSML did not contain outputs or a substantive process as at the date of acquisition, therefore it does not constitute a business under IFRS 3.

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The Company paid a total cash consideration of approximately RMB42,000,000 to the seller for 100% equity interest of XMSML. Consideration of approximately RMB21,000,000 was paid in December 2019 while the remaining approximately RMB21,000,000 was paid in January 2020.

The following table summarizes the total purchase consideration for acquiring XMSML, the fair value of assets acquired, liabilities assumed at the acquisition date:

	December 31, 2019
	<i>RMB’000</i>
Consideration paid and payable at acquisition date	
Purchase consideration	42,000
Total purchase consideration	<u>42,000</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	272
Other receivables	2,526
Intangible assets – E-Sports licenses and contracts	41,873
Other payables and accruals	<u>(2,671)</u>
Total identifiable net assets acquired	<u><u>42,000</u></u>

(b) Acquisition of Uki Holding Limited

In April 2021, the Group entered into a sale and purchase agreement with Uki Holding Limited and its subsidiaries (“Uki Group”) and its shareholders to purchase 100% equity interests of certain subsidiaries of Uki Group. Uki Group is mainly engaged in the operation of a mobile application chatting platform called “Uki”.

The acquisition was determined to be a business combination.

The following table summarizes the total purchase consideration for acquiring Uki Group, the fair value of assets acquired, liabilities assumed at the acquisition date:

	April 7, 2021
	<i>RMB’000</i>
Consideration paid and payable at acquisition date	
Cash consideration	2,103
Ordinary shares issued	49,866
Waiver of loan receivables from Company owned by beneficial owners of acquiree	<u>10,138</u>
Total purchase consideration	<u>62,107</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Intangible assets	28,527
Cash and cash equivalents	512
Accounts receivable	152
Other receivables and prepayments	2,442
Accounts payable	(2,851)
Other payables and accruals	(4,588)
Contract liabilities	(1,172)
Deferred tax liabilities	<u>(5,705)</u>

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	April 7, 2021
	<i>RMB’000</i>
Total identifiable net assets acquired	17,317
Goodwill	44,790
	62,107
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	2,103
Less: Cash and cash equivalents acquired	(512)
Net outflow of cash – investing activities	1,591

Revenue and profit contribution

The acquired business contributed revenues of approximately RMB12,564,000 and net loss of approximately RMB8,205,000 to the Group for the period from April 8, 2021 to June 30, 2021. If the acquisition had occurred on January 1, 2021, consolidated pro-forma revenue and net loss for the six months ended June 30, 2021 would have been approximately RMB21,142,000 and RMB18,812,000 respectively.

The goodwill of approximately RMB44,790,000 recognised represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired and is attributable to the synergies expected from leveraging the Group industry expertise with Uki’s customer database and assembled workforce, and increase the Group’s revenue and market share. None of the goodwill recognised is expected to be deductible for income tax purposes.

35 CASH FLOW INFORMATION

(a) Cash generated from/(used in) operations

	Year ended December 31,			Six months ended	
	2018	2019	2020	June 30,	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	<i>(Unaudited)</i>				
Profit/(loss) before income tax expenses	12,434	129,592	(141,130)	39,644	(983,131)
Adjustments for:					
Depreciation of property and equipment	1,728	2,984	4,178	1,765	3,048
Depreciation of right-of-use assets	4,002	5,356	7,329	3,441	7,308
Amortization of intangible assets	4,768	4,417	24,696	7,652	19,540
Net impairment losses on financial assets	2,040	3,944	6,587	6,258	4,027
Share-based compensation expenses	39,339	10,824	108,222	36,325	134,964
(Gains)/loss on disposal of property, equipment and intangible assets	–	(950)	2,441	–	607
Loss/(gains) on disposal of investment in associates	924	(52)	501	–	3,615
Share of loss/(profit) of associates	482	942	831	(27)	1,219
Fair value change of convertible redeemable preferred shares	–	–	53,075	–	394,756
Fair value change of convertible preferred shares	–	–	109,649	–	324,577
Fair value change of convertible notes	–	–	–	5,613	–
Fair value loss/(gains) on financial assets at fair value through profit or loss	1,192	(1,574)	8,707	(228)	(481)

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	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Fair value loss on investment properties	–	3,040	(680)	(750)	(780)
Finance expenses, net	(291)	(1,231)	(4,303)	(1,244)	(1,134)
Gain on termination of leases	–	–	(21)	–	(38)
Changes in working capital:					
Decrease/(increase) in trade and other receivables	16,756	(8,848)	(31,367)	(6,009)	(28,801)
Decrease/(increase) in amount due from related parties	33,809	20,891	15,003	3,035	(3,314)
(Decrease)/increase in amount due to related parties	(5,866)	69,360	(6,526)	40	–
(Increase)/decrease in prepayments	(19,650)	(5,952)	(8,591)	(8,602)	543
Increase in restricted cash	–	–	–	–	(2,452)
Increase/(decrease) in accounts payables	184	(1,057)	3,579	(20,950)	28,367
(Decrease)/increase in contract liabilities	(8,368)	7,260	42,185	13,918	11,489
Increase/(decrease) in other payables and accruals	16,840	(41,602)	71,527	63,055	53,704
Cash generated from/(used in) operations	<u>100,323</u>	<u>197,344</u>	<u>265,892</u>	<u>142,936</u>	<u>(32,367)</u>

(b) Reconciliation of cash used in purchase of intangible assets (including e-Sports licenses and contracts)

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Total intangible assets addition during the year/period	4,813	47,521	222,720	205,795	12,468
Add: Prepaid acquisition cost for intangible assets	–	5,300	1,000	–	–
Less: Utilisation of prepaid acquisition cost for intangible assets	–	–	(5,300)	(5,300)	–
Less: Unpaid consideration for acquisition of intangible assets	–	(21,000)	(56,000)	(198,000)	–
Add: Payment of unpaid consideration previously recognised under other payables	–	–	21,000	21,000	40,000
Add: Payment allocated to value-added tax recoverable	–	–	3,469	11,507	–
Cash used in purchase of intangible assets during the year/period	<u>4,813</u>	<u>31,821</u>	<u>186,889</u>	<u>35,002</u>	<u>52,468</u>

APPENDIX I

ACCOUNTANT’S REPORT

(c) Disposal of property, equipment and intangible assets

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Gain/(loss) on disposals	–	950	(2,441)	–	(607)
Net book value of:					
– disposed property and equipment	2	416	271	201	607
– disposed intangible assets	–	655	4,443	568	6,878
	<u>2</u>	<u>2,021</u>	<u>2,273</u>	<u>769</u>	<u>6,878</u>
Cash generated from disposal of property, equipment and intangible assets	<u>2</u>	<u>2,021</u>	<u>2,273</u>	<u>769</u>	<u>6,878</u>

(d) Reconciliation of repurchase of ordinary shares

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Consideration	–	–	104,398	–	19,929
Less: unpaid consideration recognised in amount due to related parties	–	–	(35,234)	–	–
Less: unpaid withholding tax recognised in other payables	–	–	(10,438)	–	–
Add: payment of unpaid consideration and withholding tax in prior period	–	–	–	–	35,234
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>35,234</u>
Cash used in payment of repurchase of ordinary shares	<u>–</u>	<u>–</u>	<u>58,726</u>	<u>–</u>	<u>55,163</u>

(e) Reconciliation of cash generated from issuance of convertible redeemable preferred shares

	Year ended December 31,			Six months ended	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Issuance of convertible redeemable preferred shares	–	–	699,437	–	290,703
Less: transferred from convertible notes	–	–	(176,988)	–	–
	<u>–</u>	<u>–</u>	<u>522,449</u>	<u>–</u>	<u>290,703</u>
Cash generated from issuance of convertible redeemable preferred shares	<u>–</u>	<u>–</u>	<u>522,449</u>	<u>–</u>	<u>290,703</u>

(f) Other non-cash transactions

During the year ended December 31, 2020, approximately RMB2,000,000 acquisition cost payable for acquisition of an unlisted equity investment recognised as financial asset measured at fair value through profit or loss was unpaid and recognised under other payables.

During the six months ended June 30, 2021, approximately RMB20,000,000 acquisition cost payable for acquisition of an associate was unpaid and recognised under other payables.

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ACCOUNTANT’S REPORT

(g) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities					
	Convertible redeemable preferred shares RMB'000	Convertible notes RMB'000	Convertible preferred shares RMB'000	Lease liabilities RMB'000	Borrowings RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2018	-	-	-	-	-	-
Cash flows	-	-	-	(3,032)	-	(3,032)
Leases	-	-	-	27,464	-	27,464
Liabilities from financing activities as of December 31, 2018	-	-	-	24,432	-	24,432
Cash flows	-	-	-	(5,872)	-	(5,872)
Leases	-	-	-	8,289	-	8,289
Liabilities from financing activities as of December 31, 2019	-	-	-	26,849	-	26,849
Cash flows	522,450	176,988	12	(7,703)	126,500	818,247
Conversion to Series A preferred shares	163,125	(163,125)	-	-	-	-
Re-designation of Series Angel Preferred Shares from ordinary shares	-	-	211,978	-	-	211,978
Fair value changes of convertible redeemable preferred shares	53,075	-	-	-	-	53,075
Fair value change due to own credit risk	(3,649)	-	-	-	-	(3,649)
Fair value changes of convertible preferred shares	-	-	109,649	-	-	109,649
Foreign exchange adjustments	11,192	(13,863)	(6,913)	-	-	(9,584)
Leases	-	-	-	2,047	-	2,047
Liabilities from financing activities as of December 31, 2020	746,193	-	314,726	21,193	126,500	1,208,612
(Unaudited)						
Liabilities from financing activities as of December 31, 2019	-	-	-	26,849	-	26,849
Cash flows	-	176,988	-	(3,266)	80,000	253,722
Fair value changes of convertible notes	-	5,613	-	-	-	5,613
Fair value change due to own credit risk	-	158	-	-	-	158
Foreign exchange adjustments	-	151	-	-	-	151
Leases	-	-	-	517	-	517
Liabilities from financing activities as of June 30, 2020	-	182,910	-	24,100	80,000	287,010

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ACCOUNTANT’S REPORT

	Liabilities from financing activities					
	Convertible redeemable preferred shares RMB'000	Convertible notes RMB'000	Convertible preferred shares RMB'000	Lease liabilities RMB'000	Borrowings RMB'000	Total RMB'000
Liabilities from financing activities as of December 31, 2020	746,193	–	314,726	21,193	126,500	1,208,612
Cash flows	290,703	–	–	(8,353)	(126,500)	155,850
Re-designation of Series C Preferred Shares from ordinary shares	120,865	–	–	–	–	120,865
Fair value changes of convertible redeemable preferred shares	394,756	–	–	–	–	394,756
Fair value change due to own credit risk	5,407	–	–	–	–	5,407
Fair value changes of convertible preferred shares	–	–	324,577	–	–	324,577
Foreign exchange adjustments	7,641	–	2,846	–	–	10,487
Leases	–	–	–	127,676	–	127,676
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities from financing activities as of June 30, 2021	<u>1,565,565</u>	<u>–</u>	<u>642,149</u>	<u>140,516</u>	<u>–</u>	<u>2,348,230</u>

36 CONTINGENCIES AND COMMITMENTS

(i) Capital commitment

Capital commitments contracts for at the balance sheet dates but not recognized in the consolidated financial statements are as follows:

	As of December 31,			As of
	2018 RMB'000	2019 RMB'000	2020 RMB'000	June 30, 2021 RMB'000
Committed capital injection in an associate	<u>–</u>	<u>1,426</u>	<u>1,426</u>	<u>1,426</u>

Note:

The committed capital injection is required to be completed by 2025.

(ii) Lease commitments

The Group leases various offices under non-cancellable operating leases expiring within two months to six years. The Group has recognized right-of-use assets for these leases, except for short-term and low-value leases, see Note 15 for further information.

Short-term leases contracted for at the end of the year/period but not yet incurred is as follows:

	As of December 31,			As of
	2018 RMB'000	2019 RMB'000	2020 RMB'000	June 30, 2021 RMB'000
Office	<u>145</u>	<u>1,174</u>	<u>2,441</u>	<u>872</u>

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ACCOUNTANT’S REPORT

37 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subjected to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

Company	Relationship
Rastar Capital Co., Ltd. (“RASTAR Capital”)	Former shareholder of Guangzhou Quwan until May 2020
Rastar Group Co., Ltd. (“RASTAR Group”)	Shareholder of RASTAR Capital, former shareholder of Guangzhou Quwan
Guangzhou Star Joys Information Technology Co., Ltd. (“Star Joys”)	Subsidiary of RASTAR Capital, former shareholder of Guangzhou Quwan
Guangdong Xinghui Teamtop Entertainment Co., Ltd. (“Teamtop”)	Subsidiary of RASTAR GROUP, former shareholder of Guangzhou Quwan
Guangzhou Baiqian Commercial Management Co., Ltd. (“Guangzhou Baiqi”)	Subsidiary of RASTAR GROUP, former shareholder of Guangzhou Quwan
Song Ke	Director
Hainan Mobius Network Technology Co., Ltd. (“Hainan Mobius”)	Controlled by direct relative of director, Song Ke
Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (“Guiyang Shengqu”)	Shareholder of Guangzhou Quwan
Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (“Linxia Shouqu”)	Shareholder of Guangzhou Quwan
Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (“Wenzhou Huanqu”)	Shareholder of Guangzhou Quwan
Yun Qu Limited	Shareholder of the Company, which is wholly owned by key management of the Company
Galaxy Nebula Limited	Shareholder of the Company, which is wholly owned by key management of the Company
Beijing Youqu Future Network Technology Co., Ltd. (“Beijing Youqu”)	Associate
Wenzhou Fengshang Network Technology Co., Ltd. (“Wenzhou Fengshang”)	Associate
Shishi Shayou Network Technology Co., Ltd. (“Shishi Shayou”)	Associate
Guangzhou Huanma Network Technology Co., Ltd. (“Guangzhou Huanma”)	Associate
Nanning Huanma Network Technology Co., Ltd. (“Nanning Huanma”)	Associate
Nanning Youhuan Network Technology Co., Ltd. (“Nanning Youhuan”)	Associate
Guangzhou Huanyu Mobile Technology Co., Ltd. (“Guangzhou Huanyu”)	Associate
Guangzhou Huichen Technology Co., Ltd. (“Guangzhou Huichen”)	Associate

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ACCOUNTANT’S REPORT

(b) Significant transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
(i) Sales of services					
Former shareholder of the Guangzhou Quwan	1,687	3,748	117	117	–
Company controlled by direct relative of director	715	176	2	2	–
Associate	29,568	–	1	1	–
	<u>31,970</u>	<u>3,924</u>	<u>120</u>	<u>120</u>	<u>–</u>

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
(ii) Marketing and promotional expense paid					
Associates	<u>5,962</u>	<u>6,381</u>	<u>1,881</u>	<u>1,619</u>	<u>–</u>

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
(iii) Rental and building management fee paid					
Associates	<u>3,865</u>	<u>7,872</u>	<u>2,916</u>	<u>2,916</u>	<u>–</u>

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
(iv) Game development fees paid					
Associates	<u>731</u>	<u>1,941</u>	<u>–</u>	<u>–</u>	<u>–</u>

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
(v) Dividend declared by Guangzhou Quwan Shareholders and former shareholder of Guangzhou Quwan					
Quwan	<u>–</u>	<u>69,360</u>	<u>112,000</u>	<u>–</u>	<u>230,000</u>

APPENDIX I

ACCOUNTANT’S REPORT

The Company

	As of December 31,			As of
	2018	2019	2020	June 30,
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
(iv) Amount from subsidiaries				
Subsidiaries (<i>Note iv</i>)	–	–	302,010	500,916
	–	–	302,010	500,916
	<u>–</u>	<u>–</u>	<u>302,010</u>	<u>500,916</u>
(v) Amount due to related parties				
Shareholders of the Company	–	–	35,234	–
	–	–	35,234	–
	<u>–</u>	<u>–</u>	<u>35,234</u>	<u>–</u>

Notes:

(i) All transactions are conducted at prices and terms that are mutually agreed. Except for approximately RMB35,234,000 due from the Company to shareholders of the Company as of December 31, 2020 which is denominated in USD, all transactions are denominated in RMB.

(ii) As of December 31, 2018 and 2019, the amount due from a director of approximately RMB33,000,000 and RMB50,400,000 respectively were unsecured, with an annual interest rate of 4.15% and repayable in a year. Interest of these loans was subsequently waived in August 2020 and the corresponding compensation costs of approximately RMB4,038,000 is recognized for the years ended December 31, 2020. The amount due from director was subsequently repaid in September and October 2020.

(iii) As of December 31, 2020, the amount due from Linxia Shouqu of approximately RMB141,306,000 respectively were unsecured, interest-free, and repayable in March 2021.

As of December 31, 2020, the amount due from Linxia Shouqu of approximately RMB43,348,000 were unsecured, interest-free, and repayable on demand.

Considering the nature of the loans was interest-free and due from Linxia Shouqu which is substantially owned by management of the Group, the Group recognized corresponding compensation costs amounted to approximately RMB3,967,000, RMB979,000 and RMB1,915,000 respectively for the year ended December 31, 2020 and the six months ended June 30, 2020 and 2021.

The amount due from Linxia Shouqu was repaid in April 2021.

(iv) As of December 31, 2020, the amount due from Wenzhou Huanqu of approximately RMB62,489,000 respectively were unsecured, interest-free, and repayable in May, 2022.

As of December 31, 2020, the amount due from Wenzhou Huanqu of approximately RMB23,999,000 was unsecured, interest-free and repayable in December, 2023.

Considering the nature of the loans was interest-free and due from Wenzhou Huanqu which is substantially owned by management of the Group, the Group recognized corresponding compensation costs amounted to approximately RMB184,000, RMB1,326,000 and RMB975,000 respectively for the year ended December 31, 2020 and the six months ended June 30, 2020 and 2021.

The amount due from Wenzhou Huanqu was repaid in April 2021 and June 2021.

(v) As of December 31, 2020, all amount due from the Company’s subsidiaries to the Company were unsecured, with an annual interest rate of 0.50% and repayable within 1 year.

As of June 30, 2021, the amount due from the Company’s subsidiaries to the Company of approximately RMB145,352,000 were unsecured, with an annual interest rate of 0.50% and repayable within 1 year.

As of June 30, 2021, the amount due from the Company’s subsidiaries to the Company of approximately RMB354,789,000 were unsecured, with an annual interest rate of 0.50% and repayable in December 2023.

APPENDIX I

ACCOUNTANT’S REPORT

Except for the above loan to related parties, all the balances with the related parties above were unsecured, non-interest bearing and repayable on demand.

(d) Benefits and interest of directors

During the Track Record Period, the information about quasi-loans entered into by the Group or subsidiary undertaking of the Group, where applicable, in favour of the directors is as follows:

Name of director	Outstanding balance at the beginning of the year <i>RMB'000</i>	Outstanding balance at the end of the year <i>RMB'000</i>	Maximum outstanding during the year <i>RMB'000</i>	Term	Interest rate	Security
As at January 1, 2018						
Quasi-loan:						
Mr. Song Ke	–	33,022	33,702	Repayable on June 2019	4.15%	N/A
As at January 1, 2019						
Quasi-loan:						
Mr. Song Ke	33,022	104,065	106,161	Repayable on June 2020	4.15%	N/A
As at January 1, 2020						
Quasi-loan:						
Mr. Song Ke	104,065	–	105,389	Repayable on June 2020	4.15%	N/A

(e) Key management personnel compensation

	Year ended December 31,			Six months ended June 30,	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
Wages, salaries and bonuses	860	2,047	36,948	994	1,880
Share-based compensation expenses	36,825	9,318	21,804	3,209	71,850
Other social security costs, housing benefits and other employee benefits	141	157	140	83	135
	<u>37,826</u>	<u>11,522</u>	<u>58,892</u>	<u>4,286</u>	<u>73,865</u>

APPENDIX I

ACCOUNTANT’S REPORT

38 SUBSEQUENT EVENTS

In September 2021, the Group entered into a share purchase agreement with an independent third party to acquire 100% equity interest in a company holding a Permit for Audio-Video Programs Transmittal (“AVSP”) at a cash consideration of approximately RMB59,500,000. The acquisition was completed in September 2021. The Group is in the process of finalizing the assessment on the accounting treatment and the resulting impact of this acquisition to the consolidated financial statements of the Group.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021.

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX IIA

PROFIT/(LOSS) ESTIMATE

Our estimate of the consolidated profit of our Group for the year [ended] December 31, 2021 is set out in the section headed “Financial Information – Profit/(Loss) Estimate for the Year [ended] December 31, 2021.”

(A) OVERVIEW

Our Directors estimate that, on the bases set out in Part B of this Appendix IIA and in the absence of unforeseen circumstances, the estimated consolidated profit/(loss) of our Group for the year [ended] December 31, 2021 attributable to the owners of the Company being no less/more than RMB[●] million.

(B) BASES

Our Directors have prepared the estimated consolidated profit of our Group for the year [ended] December 31, 2021 based on (i) [the audited consolidated results of the Group for the nine months ended September 30, 2021 and (ii) the unaudited consolidated results based on the management accounts of the Group for the three months [ended] December 31, 2021.] The profit/(loss) estimate has been prepared by our Directors on a basis consistent in all material respects with the accounting policies that we normally adopt as set out in the Accountant’s Report, the text of which is set out in Appendix I to this document.

(C) LETTER FROM THE REPORTING ACCOUNTANT

[●]

(D) LETTER FROM THE JOINT SPONSORS

[●]

APPENDIX III

PROPERTY VALUATION REPORT

The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this document received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 August 2021 of the property interests held by the Group.



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[●] 2021

The Board of Directors
Quwan Holding Limited
19/F, Tower B, GRG Square,
163 Huangpu Avenue West Pingyun Road,
Tianhe District, Guangzhou,
Guangdong Province,
PRC

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions of Quwan Holding Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) for us to carry out the valuation of the property interests located in the People’s Republic of China (the “PRC”) held by the Group (the “**Property**”). We confirm that we have made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 August 2021 (the “Valuation Date”).

VALUATION STANDARDS

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the RICS Valuation – Global Standards 2020 published by the Royal Institution of Chartered Surveyors (“RICS”) and the International Valuation Standards published from time to time by the International Valuation Standards Council.

APPENDIX III

PROPERTY VALUATION REPORT

BASIS OF VALUATION

Our valuation is carried out on a market value basis, which is defined as “*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*”.

VALUATION ASSUMPTIONS

Our valuation of the Property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In the course of our valuation of the Property in the PRC, we have assumed that transferable land use rights in respect of the Property for a specific term at nominal annual land use fees have been granted and that any premium has already been fully settled. We have relied on the advice given by the Group and its legal adviser, being Commerce & Finance Law Offices (通商律師事務所) (“**the PRC Legal Adviser**”) dated 19 October 2021, regarding the title to the Property. For the purpose of our valuation, we have assumed that the grantee has an enforceable title to the Property.

In valuing the Property in the PRC, we have assumed that the grantees or the users of the Property have free and uninterrupted rights to use or to assign the Property for the whole of the unexpired term as granted.

Unless noted in the report, vacant possession is assumed for the property concerned.

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the properties in their designated uses with the understanding that the properties will be used as such (hereafter referred to as “continued uses”).

In valuing the property interests, we have valued by income approach. Income Approach is taking into account the rental income of the properties derived from the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate. Where appropriate, reference has also been made to the comparable sales transactions as available in the relevant market.

APPENDIX III

PROPERTY VALUATION REPORT

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the Property interests in the PRC. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate. In the course of our valuation, we have relied considerably on the legal opinion given by the Group's PRC legal adviser – Commerce & Finance Law Offices, concerning the validity of title of the property interests in the PRC.

SITE INVESTIGATION

We have inspected the exteriors and, where possible, the interior of the Property. The site inspection was carried out on 26 August 2021 by Carry Yang (Valuer). However, we have not carried out an investigation on site to determine the suitability of ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. We have further assumed that there is no significant pollution or contamination in the locality which may affect any future developments.

Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Property is free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Group on such matters as statutory notices, planning approvals, zoning, easements, tenures, completion date of buildings, development proposal, identification of properties, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

APPENDIX III

PROPERTY VALUATION REPORT

LIMITING CONDITION

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

CURRENCY

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

The valuation certificate is attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Vincent C B Pang
MRICS CFA FCPA FCPA Australia
RICS Registered Valuer
Managing Director

Note: Mr. Vincent C B Pang is a member of Royal Institution of Chartered Surveyors (RICS) and a registered valuer of RICS. He has over 10 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

APPENDIX III

PROPERTY VALUATION REPORT

VALUATION CERTIFICATE

Property interests held for investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2021 RMB
Block C33, Phase 2 Project, Plot C, Resort Software Community, Haikou City, Hainan Province, the PRC (海南省海口市海南生態軟件園C地塊二期工程C33棟)	<p>The Property comprises a 5-storey office building and which was completed in 2017.</p> <p>The Property has a total gross floor area of approximately 3,168.89 sq.m.</p> <p>The Property is located at Chengmai County, with approximately 2.3km to Laochengzhen Railway Station and 40km to Haikou Meilan International Airport.</p> <p>Pursuant to the Real Estate Ownership Certificate, the land use rights of the Property have been granted for a term expiring on 14 January 2050 for commercial use.</p>	<p>Portion of the Property with gross floor area of approximately 1,756.26 sq.m. was leased to various independent third parties at a monthly rent of RMB81,959.15 with the latest term expiring on 17 November 2022 for office use.</p> <p>The remaining portion of the subject property is vacant.</p>	<p>28,340,000 (100% interest attributable to the Group: 28,340,000)</p>

Notes:

- i. Pursuant to the Real Estate Ownership Certificate – Qiong (2019) Cheng Mai Xian Bu Dong Chan Di No. 0033036, the Property with a total gross floor area of approximately 3,168.89 sq.m. is held by 廣州趣丸網絡科技有限公司 for a term expiring on 14 January 2050 for office use.
- ii. We have been provided with a legal opinion dated 19 October 2021 (“PRC Legal Opinion Date”) regarding the property interest by the PRC Legal Adviser, which contains, *inter alia*, the following:
 - a. As of the PRC Legal Opinion Date, Guangzhou Quwan has legally and validly obtained the land use right and building ownership of the Property; and
 - b. As of the PRC Legal Opinion Date, Guangzhou Quwan has the right to use, lease, transfer, pledge or dispose the Property legally.
- iii. In our valuation, we have made reference to some asking rental references of office comparables in the subject development. We have adopted the range of monthly market unit rent between RMB45 and RMB65 per sq.m. The monthly market unit rent assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those rental price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

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SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available on display as specified in Appendix VI in the section headed "Documents available on display".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$[50,000] divided into [500,000,000] ordinary shares of US\$[0.0001] each.

2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the

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Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or a director of any holding company of the Company or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

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- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

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The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to

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be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

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(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Act.

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2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

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A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting

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agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association at the same time as the notice to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

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2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

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The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

- (a) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the day of the general meeting;
- (b) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and
- (c) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

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The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

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2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

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Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may

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disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

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2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

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A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

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A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

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2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 May 2019 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

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3 Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

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Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

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6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

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9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and

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liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

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16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display as referred to in the section headed "Documents available on display" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

APPENDIX V

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of Our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on May 29, 2019. Our registered office is at PO Box 309, Uglan House, Grand Cayman KY1-1104, Cayman Islands. Accordingly, our Company’s corporate structure and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Articles of Association is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law – 2 Articles of Association” in Appendix IV to this Document.

Our registered place of business in Hong Kong is Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on [●], 2021 with the Registrar of Companies in Hong Kong. Ms. Ng Wai Kam (伍偉琴) has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process is Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Our Company’s head office is located at 19/F, Tower B, GRG Square, 163 Huangpu Avenue West Pingyun Road, Tianhe District, Guangzhou, Guangdong Province, PRC.

2. Changes in the Share Capital

The following sets out the changes in the share capital of our Company during the two years immediately preceding the date of this Document:

- (a) On November 11, 2020, our Company issued ordinary shares in the following manner:
 - (i) 38,947,024 ordinary shares to Funplus;
 - (ii) 5,640,000 ordinary shares to Fiery Dragon; and
 - (iii) 10,656,352 ordinary shares to Peerless Hero;
- (b) On November 11, 2020, our Company issued 17,723,079 Series Angel Preferred Shares to Vanker;

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- (c) On November 11, 2020, our Company issued Series A Preferred Shares in the following manner:
 - (i) 12,992,601 Series A Preferred Shares to Matrix Partners China VI Hong Kong Limited; and
 - (ii) 10,394,081 Series A Preferred Shares to Skycus China Fund, L.P.;
- (d) On December 10, 2020, our Company issued ordinary shares in the following manner:
 - (i) 8,524,297 ordinary shares to Yun Qu; and
 - (ii) 8,534,952 ordinary shares to Galaxy Nebula Limited;
- (e) On December 10, 2020, our Company issued Series B Preferred Shares in the following manner:
 - (i) 3,248,150 Series B Preferred Shares to Matrix Partners China VI Hong Kong Limited; and
 - (ii) 9,744,451 Series B Preferred Shares to Duckling Fund, L.P.;
- (f) On December 28, 2020, our Company repurchased 1,948,890 Shares from Funplus, 649,630 Shares from Fiery Dragon, 649,630 Shares from Peerless Hero, 974,445 Shares from Yun Qu and 974,445 Shares from Galaxy Nebula Limited, respectively;
- (g) On December 29, 2020, our Company issued 5,197,041 Series B+ Preferred Shares to Beautiful Success Holdings Limited;
- (h) On February 7, 2021, the Company repurchased 2,589,255 ordinary shares from Galaxy Nebula Limited;
- (i) On March 19, 2021, our Company issued 10,440,854 Series Angel Preferred Shares to Dream League Limited;
- (j) On April 21, 2021, our Company issued ordinary shares in the following manner:
 - (i) 752,860 ordinary shares to Iridescent Rainbow Limited; and
 - (ii) 2,521,935 ordinary shares to Matrix Partners China V Hong Kong Limited;

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- (k) On June 15, 2021, our Company issued Series C Preferred Shares in the following manner:
 - (i) 2,267,562 Series C Preferred Shares to Image Frame Investment (HK) Limited;
 - (ii) 2,267,562 Series C Preferred Shares to Beautiful Success Holdings Limited;
and
 - (iii) 2,267,562 Series C Preferred Shares to 3W Global Fund;
- (l) On June 15, 2021, Funplus transferred 2,828,336 ordinary shares, which were re-classified and re-designated as Series C Preferred Shares, to Image Frame Investment (HK) Limited.

Each Series Angel Preferred Share, Series A Preferred Share, Series B Preferred Share, Series B+ Preferred Share and Series C Preferred Share of the Company shall automatically be converted into Shares of the Company upon the completion of the [REDACTED].

Save as disclosed herein, there has been no alteration in our share capital and no redemption, repurchase or sale of any of our share capital since our incorporation.

3. Resolutions of our Shareholders

Resolutions of our Shareholders were passed on [●], 2022, pursuant to which, among others:

- [(a) the Memorandum and Articles of Association were approved and adopted conditional upon [REDACTED];
- (b) conditional upon all the conditions set out in “Structure and Conditions of the [REDACTED] – [REDACTED]” in this Document being fulfilled:
 - (i) the [REDACTED] was approved and the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to make or effect the same as it thinks fit;
 - (ii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to allot, issue and approve the transfer of such number of Shares in connection with the [REDACTED]; and
 - (iii) the Board (or any committee thereof established by the Board pursuant to the Articles) was authorized to agree to the price per [REDACTED] with the Joint [REDACTED].

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- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers or agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted, issued or dealt with, otherwise than pursuant to the [REDACTED] or pursuant to a right issue or pursuant to the exercise of any subscription rights attaching to any warrants or any option scheme or similar arrangement which may be allotted and issued by our Company from time to time on a specific authority granted by the Shareholders in general meeting or, pursuant to the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, Shares not exceed 20% of the number of the Shares in issue immediately following completion of the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest;
- (d) a general unconditional mandate was given to the Directors authorizing them to exercise all the powers of our Company to repurchase its own Shares on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the number of the Shares in issue immediately following the completion of the [REDACTED], such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any applicable laws, or until revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever occurs first;
- (e) the general mandate mentioned in paragraph (c) above be extended by the addition to the number of the Shares which may be allotted, or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by the Company pursuant to the mandate to purchase shares referred to in paragraph (d) above; and
- (f) immediately prior to the completion of the [REDACTED], each Series Angel Preferred Share, Series A Preferred Share, Series B Preferred Share, Series B+ Preferred Share and Series C Preferred Share of the Company be converted into ordinary Shares of the Company at the then effective applicable conversion price upon the completion of the [REDACTED].]

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4. Corporate Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the [REDACTED] of our Shares on the Stock Exchange. See the section headed “History, Reorganization and Corporate Structure” in this Document for information relating to the Reorganization.

5. Changes in the Capital of our Subsidiaries

Our subsidiaries during the Track Record Period are set out in the Accountant’s Report set out in Appendix I to this Document. Save as disclosed below, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this Document.

Guangzhou Qujing

On February 28, 2020, the registered capital of Guangzhou Qujing was increased from RMB50,000,000 to RMB52,626,039.36.

Zhuhai Huanquhui

On February 14, 2020, the registered capital of Zhuhai Huanquhui was increased from USD32,000,000 to USD100,000,000.

Shanghai Chenlong

On May 20, 2021, the registered capital of Shanghai Chenlong was increased from RMB1,000,000 to RMB10,000,000.

6. Repurchases of our Own Securities

(a) Provisions of the Listing Rules

Listing Rules permit companies with a primary [REDACTED] on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders’ approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution of the Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

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Pursuant to a resolution passed by our Shareholders on [●], 2022, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be [REDACTED] and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than [10]% of the number of Shares in issue immediately following the completion of the [REDACTED] until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the applicable laws of the Cayman Islands. A [REDACTED] company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the [REDACTED]. Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of [REDACTED] Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by our Company to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) Status of repurchased Shares

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically [REDACTED] and the certificates for those Shares must be canceled and destroyed.

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(v) Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

(vi) Procedural and reporting requirements

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell its securities to the company on the Stock Exchange.

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(b) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this Document and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this Document. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED], could accordingly result in [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of Hong Kong to be held; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting (the “**Relevant Period**”).

(d) General

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong. Our Company have not repurchased any Shares since our incorporation.

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If, as a result of any repurchase of Shares, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the [REDACTED] shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this Document that are or may be material:

- (a) an exclusive technical service agreement (獨家技術服務協議) dated October 11, 2021 entered into between Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) pursuant to which Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) agreed to engage Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as its exclusive provider of consulting, technical support and other related services;
- (b) a shareholder voting rights proxy agreement (股東表決權委託決議) dated October 11, 2021 entered into among Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司), Song Ke (宋克), Qiu Zhizhao (邱志招), Chen Guangyao (陳光堯), Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合伙企業(有限合伙)), Zhangshu Wei-qu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)), Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)), Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)), Guangzhou Quyi Enterprise Management Partnership (Limited Partnership) (廣州趣

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意企業管理合夥企業(有限合夥)) and Song Guowen (宋國文), pursuant to which Song Ke (宋克), Qiu Zhizhao (邱志招), Chen Guangyao (陳光堯), Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合夥企業(有限合夥)), Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合夥)), Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合夥企業(有限合夥)), Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合夥企業(有限合夥)), Guangzhou Quyi Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合夥企業(有限合夥)) irrevocably entrust Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) or its designated person to exercise all rights of the holders of equity interest of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);

- (c) a power of attorney (授權委託書) (the “**Song’s Power of Attorney**”) dated October 11, 2021 executed by Song Ke (宋克), pursuant to which Song Ke (宋克) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as his attorney to act on his behalf to exercise all his rights as a shareholder in respect of his interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (d) a power of attorney (授權委託書) (the “**Qiu’s Power of Attorney**”) dated October 11, 2021 executed by Qiu Zhizhao (邱志招), pursuant to which Qiu Zhizhao (邱志招) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as his attorney to act on his behalf to exercise all his rights as a shareholder in respect of his interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (e) a power of attorney (授權委託書) (the “**Chen’s Power of Attorney**”) dated October 11, 2021 executed by Chen Guangyao (陳光堯), pursuant to which Chen Guangyao (陳光堯) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as his attorney to act on his behalf to exercise all his rights as a shareholder in respect of his interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (f) a power of attorney (授權委託書) dated October 11, 2021 executed by Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合夥企業(有限合夥)), pursuant to which Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合夥企業(有限合夥)) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as its attorney to act on its behalf to exercise all its rights as a shareholder in respect of its interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);

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- (g) a power of attorney (授權委託書) dated October 11, 2021 executed by Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)), pursuant to which Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as its attorney to act on its behalf to exercise all its rights as a shareholder in respect of its interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (h) a power of attorney (授權委託書) dated October 11, 2021 executed by Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)), pursuant to which Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as its attorney to act on its behalf to exercise all its rights as a shareholder in respect of its interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (i) a power of attorney (授權委託書) dated October 11, 2021 executed by Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)), pursuant to which Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as its attorney to act on its behalf to exercise all its rights as a shareholder in respect of its interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (j) a power of attorney (授權委託書) dated October 11, 2021 executed by Guangzhou Quyi Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合伙企業(有限合伙)), pursuant to which Guangzhou Quyi Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合伙企業(有限合伙)) irrevocably authorizes Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) as its attorney to act on its behalf to exercise all its rights as a shareholder in respect of its interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司);
- (k) an exclusive call option agreement (獨家轉股期權協議) dated October 11, 2021, entered into among Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司), Song Ke (宋克), Qiu Zhizhao (邱志招), Chen Guangyao (陳光堯), Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合伙企業(有限合伙)), Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)), Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)), Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)), Guangzhou Quyi Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合伙企業(有限合伙)) and Song Guowen (宋國文), pursuant to which Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) was granted exclusive options to acquire the equity interests in Guangzhou Quwan Network

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Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and all or part of the assets of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) itself or through its designated person(s);

- (l) an equity pledge agreement (股權質押協議) (the “**Song’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Song Ke (宋克), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) and Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司), pursuant to which Song Ke (宋克) agreed to pledge all of his equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Song Ke (宋克) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Song’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Song’s Equity Pledge Agreement;
- (m) an equity pledge agreement (股權質押協議) (the “**Qiu’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Qiu Zhizhao (邱志招), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) and Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司), pursuant to which Qiu Zhizhao (邱志招) agreed to pledge all of his equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Qiu Zhizhao (邱志招) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Qiu’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Qiu’s Equity Pledge Agreement;
- (n) an equity pledge agreement (股權質押協議) (the “**Chen’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Chen Guangyao (陳光堯), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) and Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司), pursuant to which Chen Guangyao (陳光堯) agreed to pledge all of his equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Chen Guangyao (陳光堯) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Chen’s Equity Pledge Agreement and (iii)

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payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Chen’s Equity Pledge Agreement;

- (o) an equity pledge agreement (股權質押協議) (the “**Huanqu’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合伙企業(有限合伙)), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and Song Ke (宋克), pursuant to which Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合伙企業(有限合伙)) agreed to pledge all of its equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Wenzhou Huanqu Enterprise Management Partnership (Limited Partnership) (溫州歡趣企業管理合伙企業(有限合伙)) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Huanqu’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Huanqu’s Equity Pledge Agreement;
- (p) an equity pledge agreement (股權質押協議) (the “**Weiqu’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and Song Ke (宋克), pursuant to which Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)) agreed to pledge all of its equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Zhangshu Weiqu Investment Management Center (Limited Partnership) (樟樹市唯趣投資管理中心(有限合伙)) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Weiqu’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Weiqu’s Equity Pledge Agreement;
- (q) an equity pledge agreement (股權質押協議) (the “**Shengqu’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡

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- 科技有限公司) and Song Ke (宋克), pursuant to which Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)) agreed to pledge all of its equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Guiyang Shengqu Enterprise Management Partnership (Limited Partnership) (貴陽盛趣企業管理合伙企業(有限合伙)) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Shengqu’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Shengqu’s Equity Pledge Agreement;
- (r) an equity pledge agreement (股權質押協議) (the “**Shouqu’s Equity Pledge Agreement**”) dated October 11, 2021, entered into among Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and Song Ke (宋克), pursuant to which Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)) agreed to pledge all of its equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Linxia Shouqu Enterprise Management Partnership (Limited Partnership) (臨夏市首趣企業管理合伙企業(有限合伙)) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Shouqu’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Shouqu’s Equity Pledge Agreement;
- (s) an equity pledge agreement (股權質押協議) (the “**Quyis Equity Pledge Agreement**”) dated October 11, 2021, entered into among Guangzhou Quyis Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合伙企業(有限合伙)), Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) and Song Guowen (宋國文), pursuant to which Guangzhou Quyis Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合伙企業(有限合伙)) agreed to pledge all of its equity interest in Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) to Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司) to secure performance of (i) contractual obligations of Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司) under the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement and the Shareholder Voting Rights Proxy Agreement, (ii) the contractual obligations of Guangzhou Quyis

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Enterprise Management Partnership (Limited Partnership) (廣州趣意企業管理合夥企業(有限合夥)) under the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Quyi’s Equity Pledge Agreement and (iii) payment obligations arising out of or in relation to the Exclusive Technical Service Agreement, the Exclusive Call Option Agreement, the Shareholder Voting Rights Proxy Agreement and the Quyi’s Equity Pledge Agreement;

- (t) the convertible note purchase agreement dated April 13, 2020, entered into among Quwan Holding Limited, Matrix Partners China V Hong Kong Limited, Skycus China Fund, L.P., SONG Ke (宋克), Exploring Time Limited, Quwan (HK) Limited, Zhuhai Huanquhui Network Technology Co., Ltd. (珠海歡趣匯網絡科技有限公司), Guangzhou Quwan Network Technology Co., Ltd. (廣州趣丸網絡科技有限公司), Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Hubei Youqu Network Technology Co., Ltd. (湖北友趣網絡科技有限公司) and Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), in relation to the sale and purchase of a convertible promissory note by Matrix Partners China V Hong Kong Limited and Skycus China Fund, L.P. for consideration of US\$13,880,000 and US\$11,120,000, respectively;
- (u) the series A preferred share purchase agreement dated November 11, 2020 entered into among Quwan Holding Limited, Quwan (HK) Limited, Zhuhai Huanquhui Network Technology Co., Ltd., Guangzhou Quwan Network Technology Co., Ltd., Funplus (BVI) Limited, SONG Ke, Peerless Hero Limited, CHEN Guangyao, Fieri Dragon Limited, QIU Zhizhao, Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Hubei Youqu Network Technology Co., Ltd. (湖北友趣網絡科技有限公司), Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), Xiamen Saimalei Technology Co., Ltd. (廈門塞邁雷科技有限公司), Matrix Partners China VI Hong Kong Limited and Skycus China Fund, L.P., in relation to the sale and purchase of 23,386,682 Series A Preferred Shares for an aggregate consideration of US\$47,195,123;
- (v) the series B preferred share purchase agreement dated December 10, 2020 entered into among Quwan Holding Limited, Quwan (HK) Limited, Zhuhai Huanquhui Network Technology Co., Ltd., Guangzhou Quwan Network Technology Co., Ltd., Funplus (BVI) Limited, SONG Ke, Peerless Hero Limited, CHEN Guangyao, Fieri Dragon Limited, QIU Zhizhao, Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Hubei Youqu Network Technology Co., Ltd. (湖北友趣網絡科技有限公司), Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), Xiamen Saimalei Technology Co., Ltd. (廈門塞邁雷科技有限公司), Duckling Fund, L.P. and Matrix Partners China VI Hong Kong Limited, in relation to the sale and purchase of 12,992,601 Series B Preferred Shares for an aggregate consideration of US\$40,000,000;

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- (w) the series B+ preferred share purchase agreement dated December 10, 2020 entered into among Quwan Holding Limited, Quwan (HK) Limited, Zhuhai Huanquhui Network Technology Co., Ltd., Guangzhou Quwan Network Technology Co., Ltd., Funplus (BVI) Limited, SONG Ke, Peerless Hero Limited, CHEN Guangyao, Fiery Dragon Limited, QIU Zhizhao, Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Hubei Youqu Network Technology Co., Ltd. (湖北友趣網絡科技有限公司), Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), Xiamen Saimailei Technology Co., Ltd. (廈門塞邁雷科技有限公司) and Beautiful Success Holdings Limited, in relation to the sale and purchase of 5,197,041 Series B+ Preferred Shares for an aggregate consideration of US\$20,000,000;
- (x) the series C preferred share purchase agreement dated June 4, 2021 entered into among Quwan Holding Limited, Quwan (HK) Limited, Zhuhai Huanquhui Network Technology Co., Ltd., Guangzhou Quwan Network Technology Co., Ltd., Funplus (BVI) Limited, SONG Ke, Peerless Hero Limited, CHEN Guangyao, Fiery Dragon Limited, QIU Zhizhao, Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), Xiamen Saimailei Technology Co., Ltd. (廈門塞邁雷科技有限公司), Zhuhai Huitou Management Consulting Co., Ltd. (珠海慧投管理諮詢有限公司), Beijing Quye Internet Technology Co., Ltd. (北京趣躍網絡科技有限公司), Shanghai Xiaojianbing Information Technology Co., Ltd. (上海小煎餅信息科技有限公司), Shanghai Chenlong Information Technology Co., Ltd. (上海辰龍信息科技有限公司), Guangzhou Jingwan Culture Media Co., Ltd. (廣州競玩文化傳媒有限公司), Image Frame Investment (HK) Limited, 3W Global Fund and Beautiful Success Holdings Limited, in relation to the sale and purchase of 6,802,686 Series C Preferred Shares for an aggregate consideration of US\$45,000,000;
- (y) the third amended and restated shareholders’ agreement dated June 9, 2021 entered into among Quwan Holding Limited, Quwan (HK) Limited, Zhuhai Hangquhui Network Technology Co., Ltd., Guangzhou Quwan Network Technology Co., Ltd., Funplus (BVI) Limited, SONG Ke, Peerless Hero Limited, CHEN Guangyao, Fiery Dragon Limited, QIU Zhizhao, Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), Xiamen Saimailei Technology Co., Ltd. (廈門塞邁雷科技有限公司), Zhuhai Huitou Management Consulting Co., Ltd. (珠海慧投管理諮詢有限公司), Beijing Quye Internet Technology Co., Ltd. (北京趣躍網絡科技有限公司), Shanghai Xiaojianbing Information Technology Co., Ltd. (上海小煎餅信息科技有限公司), Shanghai Chenlong Information Technology Co., Ltd. (上海辰龍信息科技有限公司), Guangzhou Jingwan Culture Media Co., Ltd. (廣州競玩文化傳媒有限公司), Yun Qu Limited, Galaxy Nebula Limited, Iridescent Rainbow Limited, Matrix Partners China V Hong Kong Limited, Vanker (BVI) Limited, Dream League

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Limited, Matrix Partners China VI Hong Kong Limited, Skycus China Fund, L.P., Duckling Fund, L.P., Beautiful Success Holdings Limited, Image Frame Investment (HK) Limited and 3W Global Fund, pursuant to which, shareholder rights were agreed among the parties;

- (z) the supplemental agreement to the third amended and restated shareholders’ agreement dated October 15, 2021 entered into among Quwan Holding Limited, Quwan (HK) Limited, Zhuhai Hangquhui Network Technology Co., Ltd., Guangzhou Quwan Network Technology Co., Ltd., Funplus (BVI) Limited, SONG Ke, Peerless Hero Limited, CHEN Guangyao, Fiery Dragon Limited, QIU Zhizhao, Hainan Yuyue Network Technology Co., Ltd. (海南娛躍網絡科技有限公司), Guangzhou Huancheng Culture Media Co., Ltd. (廣州歡城文化傳媒有限公司), Guangzhou Shabake Network Technology Co., Ltd. (廣州沙巴克網絡科技有限公司), Guangzhou Fuben Internet Technology Co., Ltd. (廣州副本網絡科技有限公司), Guangzhou Qujing Culture Media Co., Ltd. (廣州趣競文化傳媒有限公司), Xiamen Saimailei Technology Co., Ltd. (廈門塞邁雷科技有限公司), Zhuhai Huitou Management Consulting Co., Ltd. (珠海慧投管理諮詢有限公司), Beijing Quyue Internet Technology Co., Ltd. (北京趣躍網絡科技有限公司), Shanghai Xiaojianbing Information Technology Co., Ltd. (上海小煎餅信息科技有限公司), Shanghai Chenlong Information Technology Co., Ltd. (上海辰龍信息科技有限公司), Guangzhou Jingwan Culture Media Co., Ltd. (廣州競玩文化傳媒有限公司), Yun Qu Limited, Galaxy Nebula Limited, Iridescent Rainbow Limited, Matrix Partners China V Hong Kong Limited, Vanker (BVI) Limited, Dream League Limited, Matrix Partners China VI Hong Kong Limited, Skycus China Fund, L.P., Duckling Fund, L.P., Beautiful Success Holdings Limited, Image Frame Investment (HK) Limited and 3W Global Fund, pursuant to which, shareholder rights were agreed among the parties; and

(aa) [REDACTED].

2. Intellectual Property Rights of our Group

(a) Trademarks

As of the Latest Practicable Date, our Group had registered the following trademarks which we consider to be material to our Group’s business:

No.	Trademark	Place of registration
1.	 TT	PRC
2.	 TT语音	PRC

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As of the Latest Practicable Date, our Group had made the following trademark application which we consider to be material to our Group’s business:

No.	Trademark	Applicant	Place of application	Class	Application Date (dd/mm/yyyy)
1.		Guangzhou Quwan	PRC	9, 35, 38, 42 and 45	19/07/2021
2.		Quwan HK	Hong Kong	9, 16 and 45	06/08/2021

(b) Domain Names

As of the Latest Practicable Date, our Group had registered the following domain names which we consider to be material to our Group’s business:

No.	Domain name	Registered owner	Expiry date (dd/mm/yyyy)
1.	52tt.com	Guangzhou Quwan	08/01/2025
2.	ttwanjia.com	Guangzhou Shabake	03/08/2022

(c) Patents

As of the Latest Practicable Date, our Group had registered the following patent which we consider to be material to our Group’s business:

No.	Title	Place of registration	Registered owner
1.	A implementation method and system for information exchange among group users in mobile terminal gaming	PRC	Guangzhou Quwan
2.	A method and device for Android app hotfix	PRC	Guangzhou Quwan
3.	A method and system for switching soundtrack on mobile terminals	PRC	Guangzhou Quwan
4.	A real-time voice method and device	PRC	Guangzhou Quwan

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No.	Title	Place of registration	Registered owner
5.	A method and device using special serial numbers for categorizing users into groups	PRC	Guangzhou Quwan
6.	A method and system for notifying and inviting users to join communication groups quickly	PRC	Guangzhou Quwan
7.	A method and system for users to upgrade on social networks	PRC	Guangzhou Quwan
8.	A speech interaction method and system for multiple users in mobile terminal gaming	PRC	Guangzhou Quwan
9.	A kind of method for realizing the network group distributed digital audio player controller	PRC	Guangzhou Quwan
10.	A method and device for time synchronization	PRC	Guangzhou Quwan

(d) Software copyrights

As of the Latest Practicable Date, our Group had registered the following software copyrights which we consider to be material to our Group’s business, all of which were applied for in the PRC:

No.	Title	Version	Registration Number	Applicant
1.	TT語音軟件(簡稱:TT語音)	V3.3.3	2015SR009440	Guangzhou Quwan
2.	TT玩加軟件(簡稱:TT玩加)	V1.0	2018SR714319	Guangzhou Shabake
3.	聲洞語音軟件(簡稱:聲洞)	V1.0	2020SR1532781	Guangzhou Shabake

Save as disclosed above, as of the Latest Practicable Date, there were no other trademarks, service marks, patents, intellectual property rights, or individual property rights which are or may be material in relation to our business.

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C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Disclosure of Interests of Directors

Immediately following completion of the [REDACTED] (without taking into account the Shares to be allotted and issued upon the exercise of the [REDACTED]), the interests and/or short positions (as applicable) of our Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required under Section 352 of the SFO to be entered in the register referred to in that section, or which will be required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“**Model Code**”) once the Shares are [REDACTED], will be as follows:

Interest in Shares of our Company

Name	Title	Capacity/Nature of Interest	Number of Shares Interested upon [REDACTED]	Approximate percentage of voting rights in our Company upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan) (%)
Mr. Song	Executive Director	Founder of a trust; Interest in controlled corporation	51,892,878 ⁽¹⁾	[REDACTED]
		Interest of a party to an agreement regarding interest in the Company	22,546,944 ⁽¹⁾	[REDACTED]
Mr. Chen Guangyao	Executive Director	Interest in controlled corporation	10,006,722 ⁽²⁾	[REDACTED]
Mr. Du Guo	Executive Director	Interest in controlled corporation	7,549,852 ⁽³⁾	[REDACTED]

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Notes:

- (1) Among these Shares, 34,169,799 Shares are held by Funplus and 17,723,079 Series Angel Preferred Shares are held by Vanker. Both of Funplus and Vanker are wholly owned by Future Exploration, which is in turn wholly owned by Cantrust (Far East) Limited as the trustee of the SK Family Trust, of which Mr. Song is the founder and settlor and the beneficiaries of which are Mr. Song and his family members. Each of Mr. Song, Cantrust (Far East) Limited and Future Exploration are deemed to be interested in the 34,169,799 Shares held by Funplus and 17,723,079 Series Angel Preferred Shares held by Vanker.

On September 23, 2021, Mr. Song entered into three voting proxy agreements with: (i) Mr. Chen Guangyao and Peerless Hero as to the voting rights of 10,006,722 ordinary Shares in our Company held by Peerless Hero, (ii) Mr. Du Guo and Yun Qu as to the voting rights of 7,549,852 ordinary Shares in our Company held by Yun Qu, and (iii) Mr. Qiu Zhizhao and Fiery Dragon as to the voting rights of 4,990,370 ordinary Shares in our Company held by Fiery Dragon, respectively. Pursuant to the Voting Proxy Agreements, Mr. Song is entrusted to exercise, in his sole discretion, all voting rights attached to the above Shares held by Peerless Hero, Yun Qu and Fiery Dragon. Please see the section headed “Relationship with the Controlling Shareholders” for more details.

- (2) These Shares are held by Peerless Hero, which is wholly owned by Mr. Chen Guangyao. Therefore, Mr. Chen Guangyao is deemed to be interested in these Shares for the purposes of the SFO. Mr. Song is entitled to exercise the voting right attached to the 10,006,722 ordinary shares pursuant to the Voting Proxy Agreement. See the section headed “Relationship with the Controlling Shareholders” for details.
- (3) These Shares are held by Yun Qu, which is wholly owned by Mr. Du Guo. Therefore, Mr. Du Guo is deemed to be interested in these Shares for the purposes of the SFO. Mr. Song is entitled to exercise the voting right attached to the 7,549,852 ordinary shares pursuant to the Voting Proxy Agreement. See the section headed “Relationship with the Controlling Shareholders” for details.

(b) Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the [REDACTED], have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, see the section headed “Substantial Shareholders” in this Document.

Interests of substantial shareholders in any member of our Group (except our Company)

	Registered/Issued	Parties with 10% or	Approximate
Our subsidiaries	share capital	more equity interest	percentage of shareholding (%)
REPUBLIC OF GAMERS NETWORK TECHNOLOGY LTD	RMB15,000,000	AJB Investment Ltd.	30%

Save as disclosed above, as of the Latest Practicable Date, our Directors are not aware of any persons (not being Directors or chief executive of our Company) who would, immediately following the completion of the [REDACTED] (without taking into account the exercise of the [REDACTED]) be directly or indirectly interested in 10% or more of the issued voting shares of any member of our Group (except our Company).

2. Particulars of Service Contracts

(a) *Executive Directors*

Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of [three] years commencing from the date of appointment, which may be terminated by not less than [three] months’ notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

(b) *Non-executive Director and Independent Non-executive Directors*

Each of the non-executive Directors and the independent non-executive Directors has entered into and signed a service contract and an appointment letter, respectively, with our Company for a term of [three] years with effect from the date of appointment, which may be terminated by not less than [one] month’s notice in writing served by either the non-executive Director, the independent non-executive Director, as the case may be, or our Company. Under their respective appointment letters or service contracts, as the case may be, each of the independent non-executive Directors is entitled to a fixed Director’s fee [while the non-executive Directors are not entitled to any remuneration]. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(c) *Directors’ Remuneration*

The aggregate amount of remuneration paid to our Directors in respect of the financial years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 was approximately RMB38.12 million, RMB12.96 million, RMB99.89 million and RMB148.80 million, respectively. Under the arrangements in force as of the date of this Document, it is estimated that our Executive Directors and Independent Non-executive Directors will be entitled to receive remuneration and benefits in kind of their service which, for the year ended December 31, 2021, are expected to be approximately RMB151.54 million and nil, respectively. Our non-executive Directors are not entitled to any remuneration for the year ended December 31, 2021.

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For the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the five highest paid individuals of our Group included three, three, three and three Director(s), respectively, whose remunerations are included in the aggregate amount of fees, salaries, allowances, discretionary bonus, pension scheme contributions paid, share-based compensation, and benefits in kind granted to the relevant Directors set out above. Among such five highest paid individuals excluding our Directors, for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension scheme contributions paid, share-based compensation, and benefits in kind granted to the remaining two, two, two and two individuals were approximately RMB1.36 million, RMB2.05 million, RMB17.66 million and RMB46.38 million, respectively. For further details on the remuneration of the five highest paid individuals during the Track Record Period, see Note 9 of the Accountant's Report in Appendix I of this Document.

None of our Directors or any past directors of any member of the Group has been paid any sum of money for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 as (a) an inducement to join or upon joining the Company; or (b) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

There were no arrangements under which any Director has waived or agree to waive any emolument during the Track Record Period.

Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Fees or commissions received

Save as disclosed in this section, none of the Directors or any of the persons whose names are listed under the section headed "– E. Other Information – 10. Consent of Experts" below had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this Document.

4. Miscellaneous

- (a) Save as disclosed in this section, none of the Directors or chief executive of our Company has any interest or short positions in the Shares, underlying Shares or debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or

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which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to in that section, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are [REDACTED] on the Stock Exchange;

- (b) None our Directors nor any of the parties listed in the section headed “– [E. Other Information – 10. Consent of Experts]” below has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this Document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) None of our Directors nor any of the parties listed in the section headed “– [E. Other Information – 10. Consent of Experts]” below is materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to the business of our Group taken as a whole;
- (d) Other than pursuant to the [REDACTED], none of the parties listed in the section headed “– E. Other Information – 10. Consent of Experts” below:
 - (i) is interested legally or beneficially in any of our Shares or any shares of any of our subsidiaries; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.
- (e) Save as disclosed in the “Business” section, none of our Directors or their respective close associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our number of issued shares) has any interest in our five largest suppliers.
- (f) None of the Directors has been or is interested in the promotion of, or in the property proposed to be acquired by, our Company, and no sum has been paid or agreed to be paid to any of them in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

D. EMPLOYEE INCENTIVE PLAN

In 2015, Guangzhou Quwan adopted the 2015 PRC Incentive Plan. In 2020, the Company adopted the 2020 Global Employee Incentive Plan to replace the 2015 PRC Incentive Plan. All of the outstanding awards granted under the 2015 PRC Incentive Plan have been replaced by the awards granted under, and governed by the terms and conditions of, the 2020 Global Employee Incentive Plan. The following is a summary of the principal terms of the 2020 Global Employee Incentive Plan of the Company as approved and adopted pursuant to the written

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resolutions of all shareholders of the Company in December 2020 and amended from time to time. The terms of the Employee Incentive Plans are not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve grant of options after [REDACTED].

(a) *Summary of terms*

Purpose

The purpose of the 2020 Global Employee Incentive Plan is to aid the Company and its subsidiaries in recruiting and retaining key employees, directors or consultant of outstanding ability and to motivate such employees, directors, or consultants to exert their best efforts on behalf of the Company and its subsidiaries by providing incentives through the granting of awards.

Types of awards

Awards under 2020 Global Employee Incentive Plan shall include, without limitation, options, restricted share units, sales or bonuses of restricted shares, dividend equivalent rights or other award(s) (the “**Award(s)**”) granted pursuant to the 2020 Global Employee Incentive Plan. An Award may consist of one such security or benefit, or two (2) or more of them in any combination or alternative. The Company may grant RSUs under the 2020 Plan after [REDACTED]. No options under the 2020 Plan will be granted after [REDACTED].

Maximum number of Ordinary Shares

Under the 2020 Plan, the ordinary shares which may be issued or transferred in tranches pursuant to Awards granted under the 2020 Plan shall in no event exceed 16,000,000 ordinary shares of the Company.

Plan Administration

The 2020 Plan shall be subject to the administration of the Board or one or more person(s) as appointed by the majority of the Board (the “**Administrator**”).

Eligibility

The Administrator is authorized to issue and/or grant Awards to any employee, director or consultant of the Company as selected by the Administrator to participate in the 2020 Plan (“**Participant**”).

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Grant of Awards

The Administrator may, from time to time, select a participant to whom an Award shall be granted and shall determine the nature and amount of each Award, which shall not be inconsistent with the requirements of the 2020 Plan. Each Award shall be evidenced by an award agreement between the Company and the Participant. The award agreement shall include such additional provisions as may be specified by the Administrator.

Vesting of Awards

The period during which the right to exercise/purchase, in whole or in part, an Award vests in the Participant shall be set by the Administrator and the Administrator may determine that an Award may not be exercised/settled in whole or in part for a specified period after it is granted. Such vesting requirements may include, but not limited to, criteria based on the Participant's duration of employment, the result of Participant's performance assessment or any other criteria selected by the Administrator. At any time after grant of an Award, the Administrator may by its sole discretion and subject to whatever terms and conditions it selects, accelerate the period during which an Award vests.

Transfer restrictions

Unless expressly permitted by the Administrator or set forth in an award agreement or otherwise in writing, an Award shall not be transferable or assignable by the applicable Participant, provided however, no such permitted transfer to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

Amendment or Termination

The Administrator may amend, alter or discontinue the 2020 Plan, but no amendment, alteration or discontinuation shall be made, (a) without the approval of the shareholders of the Company, if such action would increase the total number of Shares reserved for the purposes of the 2020 Plan or change the maximum number of Shares for which Awards may be granted to any Participant, in each case only to the extent such approval is required by the principal national stock or securities exchange on which the Shares are [REDACTED] or admitted to trading, or (b) without the consent of a Participant, if such action would diminish any of the rights of the Participant under any Award granted to such Participant under the 2020 Plan; provided, however, that the Administrator may amend the 2020 Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of any applicable laws.

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(b) Outstanding Awards

As of the Latest Practicable Date, no RSU, restricted shares or other Awards has been granted under the 2020 Plan except for the grant of options as detailed below.

As of the date of this document, the Company granted options to 190 grantees to subscribe for an aggregate of 12,252,108 Shares under the 2020 Plan, representing approximately [REDACTED]% of our Company’s issued share capital immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised) for which the grantees include 2 senior management members (with respect to 2,580,330 underlying Shares). No option was granted to our Directors or other connected persons. None of the options has been exercised.

We have applied for, and have been granted (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of an paragraph 27 of Appendix 1A to the Listing Rules and (ii) an exemption from the SFC from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the information of the Options granted under the 2020 Plan. For further details, please refer to the section headed “Waivers and Exemptions – Waiver and Exemption in relation to the 2020 Global Employee Incentive Plan” in this Document.

Below is a list of senior management and other employees of our Group who are grantees of the options under the 2020 Plan, and the number of underlying Shares of their respective options.

Name of Grantee	Position held at our Company	Address	Exercise Price (US\$ per Share)	Number of outstanding Shares underlying Options granted	Date of Grant	Vesting Period	Approximate percentage of issued Shares immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan) (%)
Senior Management							
Mr. Sha Dachuan	Chief Financial Officer	Room 2402, No. 8 Huiyue First Street, Haizhu District, Guangzhou, Guangdong, PRC	0.0001	1,514,937	January 1, 2021	Vested on the date of grant	[REDACTED]

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Name of Grantee	Position held at our Company	Address	Exercise Price (US\$ per Share)	Number of outstanding Shares underlying Options granted	Date of Grant	Vesting Period	Approximate percentage of issued Shares immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no Shares are issued under the 2020 Plan) (%)
Mr. Xie Rui	Vice President, Chief Technology Officer	Room 806, 85 Shuirou Road, Haizhu District, Guangzhou, China	0.0001	200,000	July 1, 2016	(Note 1)	[REDACTED]
			0.0001	865,393	January 1, 2021	(Note 1)	[REDACTED]
Subtotal				2,580,330			[REDACTED]
188 other employees			0.0001	9,671,778	July 1, 2015 - October 1, 2021	(Note 2)	[REDACTED]
Total				12,252,108			[REDACTED]

Notes:

1. This batch of outstanding Share Options shall be vested in accordance with the following arrangement: 25% of options granted should be vested on the first anniversary of the date of grant; 25% of options granted should be vested on the second anniversary of the date of grant; 25% of options granted should be vested on the third anniversary of the date of grant; 25% of options granted should be vested on the fourth anniversary of the date of grant.
2. This batch of outstanding Share Options shall be vested in accordance with the following arrangements:
 - (1) for 8,306,139 Shares underlying the options granted, 25% of options granted should be vested on the first anniversary of the date of grant; 25% of options granted should be vested on the second anniversary of the date of grant; 25% of options granted should be vested on the third anniversary of the date of grant; 25% of options granted should be vested on the fourth anniversary of the date of grant;
 - (2) for 214,381 Shares underlying the options granted, the options vested on the date of grant;
 - (3) for 71,429 Shares underlying the options granted, 33% of options granted should be vested on the first anniversary of the date of grant; 33% of options granted should be vested on the second anniversary of the date of grant; and 34% of options granted should be vested on the third anniversary of the date of grant;
 - (4) for 1,065,393 Shares underlying the options granted, the options vested on June 24, 2021; and
 - (5) for 14,436 Shares underlying the options granted, 25% of options granted should be vested on the end of 6 months after the date of grant; 25% of options granted should be vested on the end of 18 months after the date of grant; 25% of options granted should be vested on the end of 30 months after the date of grant; 25% of options granted should be vested on the end of 42 months after the date of grant.

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(c) Dilution Effect and Impact on Earnings per share

The maximum number of Shares which may be issued under the 2020 Plan is 16,000,000 Shares. No share has been issued under the 2020 Plan. As such, taking into account the Shares to be allotted and issued under the 2020 Plan, the shareholding of our Shareholders immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised) will be diluted by approximately [REDACTED]%. The consequent impact on the earnings/(loss) per ordinary Share for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021 is RMB0.18 per share, RMB1.72 per share, RMB(2.00) per share and RMB(14.34) per share, respectively, being the incremental impact to diluted earnings per share, since the options would not be included in the calculation of diluted earnings per share due to anti-dilution.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall upon any member of our Group.

2. Litigation

As of the Latest Practicable Date, we are not aware of any litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

3. Application for [REDACTED]

The Joint Sponsors have made an application on behalf of our Company to the Stock Exchange for the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued or sold as mentioned in this Document. All necessary arrangements have been made to enable such Shares into CCASS.

4. No Material Adverse Change

The Directors confirm that there has been no material change in the financial or trading position or prospects of our Group since June 30, 2021 (being the dated to which the latest audited combined financial statements of our Group were prepared).

5. Agency Fees and Commissions Received

The [REDACTED] will receive an [REDACTED] as referred to in the section headed “[REDACTED]”.

6. The Joint Sponsors and Joint Sponsors’ fees

The Joint Sponsors are independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The fees payable by our Company to each of the Joint Sponsors to act as sponsor to our Company in connection with the [REDACTED] are US\$500,000 or in aggregate US\$1,500,000.

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7. Preliminary expenses

We have not incurred any material preliminary expenses.

8. Promoter

The Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this Document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this Document.

9. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this Document:

Name	Qualification
Goldman Sachs (Asia) L.L.C.	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Jefferies Hong Kong Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)

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Name	Qualification
Commerce & Finance Law Offices	Qualified PRC Lawyers
Maples and Calder (Hong Kong) LLP	Legal adviser to our Company as to Cayman Islands law
Frost & Sullivan	Industry consultant
Avista Valuation Advisory Limited	Independent property valuer

10. Consent of Experts

Each of the experts mentioned in the subsection headed “– Qualification of Experts” above has given and has not withdrawn its respective written consent to the issue of this Document with the inclusion of its report and/or letter and/or opinion and/or the references to its name included in this Document in the form and context in which it is respectively included.

11. Binding Effect

This Document shall have the effect, if an application is made in pursuance of this Document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

12. Bilingual Document

The English and Chinese language versions of this Document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Miscellaneous

- (a) Save as disclosed in this section, within the two years immediately preceding the date of this Document:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

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- (iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.
- (b) Save as disclosed in the "History, Reorganization and Corporate Structure" section, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (c) Our Directors confirm that:
- (i) there has been no material adverse change in the financial or trading position or prospects of our Group since June 30, 2021 (being the date to which the latest audited combined financial statements of our Group were prepared);
 - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (iii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this Document.
- (d) The principal register of members of our Company will be maintained in the Cayman Islands by [REDACTED]. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our [REDACTED].
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) save as otherwise disclosed in the Document, there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested or which is significant in relation to the business of our Group.

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE ON DISPLAY**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this Document and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of the [REDACTED];
- (b) the written consents referred to in the subsection headed “Statutory and General Information – E. Other Information – 10. Consent of Experts” in Appendix V to this Document; and
- (c) a copy of each of the material contracts referred to in the subsection headed “Statutory and General Information – B. Further Information about our Business – 1. Summary of Material Contracts” in Appendix V to this Document.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at www.52tt.com during a period of 14 days from the date of this Document:

- (a) the Memorandum of Association and the Articles of the Company;
- (b) the Accountant’s Report and the report on the unaudited [REDACTED] financial information of our Group prepared by PricewaterhouseCoopers, the texts of which are set out in Appendix I and Appendix II to this Document, respectively;
- (c) the audited combined financial statements of our Company for the three financial years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2021;
- (d) the letters relating to the profit/(loss) estimate received from PricewaterhouseCoopers and the Joint Sponsors, the text of which are set out in Appendix IIA to this Document;
- (e) the PRC legal opinions issued by Commerce & Finance Law Offices, our PRC Legal Advisor, in respect of certain general corporate matters and the property interests of our Group in the PRC;
- (f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal adviser as to the laws of the Cayman Islands, summarizing certain aspects of the Cayman Islands company law referred to in Appendix IV to this Document;

